UNITED STATES-MEXICO BORDER ISSUES AND THE PESO DEVALUATION

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

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UNITED STATES-MEXICO BORDER ISSUES AND THE PESO DEVALUATION

FRIDAY, JUNE 10, 1983

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION,
McAllen, Tex.

The subcommittee met at 9 a.m., pursuant to notice, in the city council chambers, McAllen, Tex., Hon. Kent Hance, presiding.

[The press release announcing the hearing follows:]

[Press release of Friday, June 3, 1983]

HON. HAROLD E. FORD, CHAIRMAN OF THE SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, COMMITTEE ON WAYS AND MEANS, ANNOUNCES A SUBCOMMITTEE FIELD HEARING TO BE HELD IN MCALLEN, TEX., ON RISING UNEMPLOYMENT AND INCREASED DEMAND FOR PUBLIC ASSISTANCE AND SOCIAL SERVICES IN THE REGION

The Honorable Harold E. Ford (D., Tenn.), Chairman of the Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, today announced that the Subcommittee will be conducting a field hearing in McAllen, Texas, on Friday, June 10, 1983, on rising unemployment and increased demand for public assistance and social services in the region. The hearing will be held in the McAllen City Council Chambers, 311 North 15th Street, McAllen, Texas, beginning at 9:00 a.m.

The purpose of the hearing is to receive testimony from invited witnesses regarding the effect of the peso devaluation on the economy in the region of Texas bordering Mexico. In particular, the hearing will focus on recent increases in unemployment and the resulting increased demand for public assistance and social services in the region.

For more information concerning the hearing, call the Subcommittee offices at (202) 225-1025 or (202) 225-1076.

Mr. HANCE. At this time I would like to make a short opening statement. Then we will call on the first panel to testify.

First of all, we appreciate the opportunity to be here. Unfortunately, Harold Ford, chairman of our subcommittee, could not be here today. He anticipated recorded votes in the House today. He missed eight votes on Monday while he was in Oakland conducting another field hearing, and he did not want to risk missing any more this week.

What we are trying to do at these hearings is to highlight what we would call crisis areas around the country, then make recommendations to the committee in the near future on exact legislation the committee should consider that would help solve some of the problems in the area.

I would also like to say that Congressmen Ortiz, Kazen, and Coleman have been involved in setting up these hearings. Above all I would say Congressman de la Garza has been one who has wanted us to hold these hearings. Mr. de la Garza has worked very hard with us and has told me many times of the problems in this area. The Texas delegation works very closely together. Congressman de la Garza would be here today but he is having agriculture hearings in my area of the State, and I am most appreciative of that. He has worked extremely hard in helping us set up these hearings. The Governor also asked us to hold these hearings and to make specific recommendations to address the problems of the Texas border communities.

I think that we can look not only at the programs that we have direct jurisdiction over in the subcommittee, but also those that we have jurisdiction over in the full committee. We have the AFDC program, title XX social services, and unemployment compensation under our jurisdiction. Unemployment is going to be a big issue that we will discuss today. The SSI program is also under our jurisdiction as well as low-income energy assistance. In addition, the Ways and Means Committee has full jurisdiction over tax policy and international trade. The committee has jurisdiction over the enterprise zone legislation that is now pending before Congress, and that potentially could have some benefit in areas such as the Texas border.

There is no doubt that the recession we have suffered in the last couple of years has been felt not only throughout the United States but throughout the entire world. Mexico has been no exception. After the oil glut, Mexico had to devalue the peso. In addition, Mexico imposed export controls on basic food commodities, and nationalized its banking system. It enacted strict currency controls and undertook massive cuts in Federal spending. All of that combined has had a big effect on the Texas border communities that border Mexico.

When Mexico discovered its new found oil reserves in the 1970's, the situation looked very bright, and the Mexican Government thought the price of oil was going to continue to increase. So Mexico increased spending. Then when the glut came and the price dropped from $35 to $27 a barrel for oil, the bottom fell out of Mexico's revenues. Once the dam broke, there was a flood. And there wasn't a whole lot that could be done to stop it.

We can see from the information that Congressman de la Garza, Comptroller Bob Bullock, and Governor White have supplied to us that the loss of revenues from sales tax in many Texas cities on the Mexican border has decreased by as much as 50 percent. As a result, these communities have less money to spend at a time when there is a greater demand by the public to spend more on programs that are needed during times of high unemployment.

We are basically here to document what has happened on the Texas border and to write a report for the full committee so we can consider taking some action. The Congressmen from Texas are well aware of these problems, because we have had briefings from the Governor and Members from this area. What we need to do is make the other Members aware of it. We have heard a lot about Detroit and some of the other areas of the country with economic

problems, but I think the people in Congress have the perception that the entire Texas economy is in great shape. And there are parts of the Texas economy that are in good shape. Unemployment figures are statewide figures. You have some areas of the State which are in good shape. I have some parts in my district that have only 4 or 5 percent unemployment. When you average that in with 27 percent in Laredo, the statewide figure still looks pretty low.

During this morning's session I would appreciate it if you would summarize your statements. Then if you have a written statement, we will print it in full in the record.

I want to introduce the other members of the panel with me. To my left is Ken Bowler, chief counsel for the Public Assistance and Unemployment Compensation Subcommittee. He has been with the Ways and Means Committee since 1975. Next to him is Allen Jensen. Allen's been on the staff for some time and is very well qualified; he was in Oakland for another hearing of the subcommittee on Monday. Next to Allen is Carolyn Ladd. She is representing the minority staff and was also in Oakland on Monday, after having a bad scare flying to California, and has continued to say her prayers that everything turned out OK. Last night between Washington and New Orleans a small child behind me on the plane set the Guinness record for uninterrupted crying. When Carolyn told me her story I didn't feel so bad. To my right is Jim Rock, who is on my staff, and is originally from this area.

[The prepared statement of Mr. Hance follows:]

STATEMENT OF HON. KENT HANCE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I would like to begin this morning by welcoming you to this field hearing of the Ways and Means Subcommittee on Public Assistance and Unemployment Compensation. I want to begin this session by introducing my distinguished colleague from the State of Tennessee and the Chairman of this Subcommittee, the Honorable Harold E. Ford. Mr. Ford has been a Member of Congress since 1974 and is a native of Memphis, Tennessee. On behalf of the people of Texas, I welcome Chairman Ford to the Rio Grande Valley and I would like to take this opportunity to publicly thank you for agreeing to hold this field hearing in the valley.

I would also be remiss if I did not mention the outstanding efforts on behalf of this hearing exerted by Congressman Kika del la Garza, in whose district we are meeting this morning, and Congressmen Chick Kazen of Laredo and Solomon Ortiz of Corpus Christi and Brownsville. Before the morning is over, we will hear from constituents of all three of my Texas colleagues.

Today's hearing will focus on the unique and critical problems faced by individuals, businesses, and service organizations along the Texas-Mexico border. The Subcommittee on Public Assistance and Unemployment Compensation has jurisdiction over the Aid to Families with Dependent Children Program, or AFDC; the Title XX Social Services; Child Welfare Services; Unemployment Compensation; Supplemental Security Income under the Social Security system; and the Low Income Energy and Emergency Assistance programs. The Subcommittee has Congressional oversight responsibility, then, for the basic federal-state programs that provide cash benefits and necessary social services to low-income individuals and families.

Congressmen de la Garza, Kazen, and Ortiz have done a good job in apprising other Members of Congress of the special problems that beset the Rio Grande Valley and the entire Texas-Mexico border. The economic recession that gripped our nation, leading to high interest rates, high unemployment, and business failures in record numbers, has produced a ripple effect felt around the world. The impact of this world-wide recession was felt sharply by our neighbor to the South, the nation of Mexico.

Peso devaluations, export controls on basic food commodities, the nationalization of the Mexican banking system, strict currency controls, massive cuts in federal

spending, and the ordered liquidation of foreign holdings by Mexican nationals have brought depression-like conditions to the Texas-Mexico border area.

Prior to the recent recession, the Mexican economy was booming thanks to new-found oil fields and the steadily rising price of crude on the world market. The peso rose, artifically, in value and the Mexican government undertook ambitious programs designed to upgrade the quality of life in Mexico at a cost of billions of dollars. Billions of borrowed dollars.

When the world oil market collapsed, Mexico was caught in an economic squeeze that dictated devaluation of the peso, a cutback in its growth plans, and left millions of Mexicans without jobs.

Businesses along the border saw retail sales cut in half with a corresponding drop in local taxes collected by communities and an increase in unemployment. The peso devaluation set in motion a series of devastating economic factors: declining sales and business activity, which led to declining revenues for local and state government agencies at a time when the demand for such social services were increasing with each new unemployed person or each new illegal alien child enrolled in the public schools along the border.

To separate the economic health of the border with that of Mexico is unrealistic and foolhardy. The impact of Mexico's ills are felt along the 1,250-mile Texas-Mexico border. Those same factors may not be felt in the Midwest or the Northeast, but if the economy of Mexico is suffering, the Texas border communities are also feeling the pain.

Our purpose here this morning is to document the impact being felt along the border in order to make solid recommendations to our colleagues and the current Administration concerning the needs of the Texas border cities. Those needs are unique and cannot be adequately addressed until the Congress and the Administration realize the scope and gravity of the problems of this unique area. We cannot apply the same solutions to the problems of the Texas border that we would to the ailing automobile industry of Detroit or the sad situation facing steelworkers in Pennsylvania. But it is high time Congress and the Administration begin to address the problems of border businesses, individuals, and agencies dedicated to helping the poor and unemployed.

I will offer a brief example of the obvious disregard this Administration has shown toward Texas border communities. As I have explained, the border economy is directly linked to the economy of Mexico. Yet, when Mexico was undergoing a deep and painful recession the Administration made little effort to assist businesses, individuals, or agencies along the border. Instead, the Administration opted to cut the amount of federal aid to border cities by as high as 30 percent.

The loss of local revenue, plus the loss of federal funds have only increased the degree of economic pain inflicted along the border.

And as Mexico's problems increase, the steady stream of illegal aliens swell the border's population, placing an even greater strain on the services that can be provided by local governments.

It seems to me that this Administration has ignored the special problems and special needs of the Texas border. We have the poorest areas of the entire nation here in the Rio Grande Valley.

Instead of workable solutions to problems, we get misguided proposals that assure a continuation of the problems besetting the border and Mexico.

I hope the testimony we hear today will define the problems faced by border communities, individuals, and agencies and provide the stimulus for Congress and the Administration to begin formulating realistic answers to those problems.

Mr. HANCE. At this time I want to call on the first panel, Manuel Arredondo, Edmundo Zaragoza, Carlos Villarreal, and Ernie Tullis. What I would like you to do, for the record, is to each tell who you represent. Then we can just go from there with your individual testimony.

Mr. ZARAGOZA. My name is Edmundo M. Zaragoza, an economic coordinator with the Texas Department of Community Affairs in Austin.

Do you want me to go ahead?

Mr. HANCE. I have a master schedule up here. Go ahead and introduce yourselves. Then I will come back and let Ernie testify first.

Mr. ZARAGOZA. Fine, sir.

Mr. TULLIS. I am Ernie Tullis, administrator of the Texas Employment Commission.

Mr. ARREDONDO. I am Manuel Arredondo, with the Department of Human Resources.

Mr. VILLARREAL. I am Carlos Villarreal, director of the Community Development Agency, Laredo.

STATEMENT OF ERNIE TULLIS, DIRECTOR, TEXAS EMPLOYMENT COMMISSION, AUSTIN, TEX., ACCOMPANIED BY FRANK SALINAS

Mr. TULLIS. I would like to begin with a brief economic overview of the Lower Rio Grande Valley area. Prior to the latter half of 1982, this area was experiencing strong growth, with most segments of the economy gaining strength. The "twin plant" concept, which allows a company to locate one plant on the Mexican side of the border and another on the Texas side, had drawn many new businesses into the area; and manufacturing was flourishing. In the past 8 to 10 months, however, the economic health of this area has faltered, as the peso devaluation combined with the effects of the national recession to shake the foundations of the area's prosperity. The dependence on trade with Mexico, which had been a basic part of the economy, caused the Texas border areas to be hurt almost as badly as their Mexican counterparts when the value of the peso fell.

Although the majority of the cutbacks during the past year in the border areas have occurred in manufacturing and trade, other industry sectors have also been affected. Many segments of the economy are interconnected, and declines in one sector led inevitably to similar drops in another. Curtailments in one industry frequently idle workers in other, subsidiary industries. The loss of purchasing power among those laid off also contributes to the decline in the overall economy.

The El Paso SMSA, although it is not in the Lower Rio Grande Valley, is the only other metropolitan area bordering on Mexico. El Paso has been the least severely impacted of Texas' four border areas during the past year. According to TEC statistics, the total number of salaried nonfarm jobs has dropped by 5,350, or 3 percent, between March 1982 and March 1983 [see attachment 4]. El Paso has the largest and most diverse economy of the four large border areas, and this dispersion of industry has helped it weather the current crisis better than its sister cities. Jobs in manufacturing decreased by 8 percent over the year, while trade employment declined by 5 percent. Construction activity declined by 9 percent during this period.

In contrast, the hardest hit of the border areas during the past year was the Brownsville-Harlingen-San Benito SMSA—Cameron County. The number of salaried jobs in this area declined by 7,100, or 11 percent between March 1982 and March 1983 [see attachment 2]. Manufacturing suffered the largest cutbacks, with 3,000 fewer jobs in March 1983, for a 25-percent loss over the year. Construction was also severely curtailed in Cameron County, losing 850 jobs—a decline of 20 percent. Another 1,800 jobs were lost in retail

trade alone, and the trade section as a whole dropped by 10 percent over the year.

The decrease in employment was greatest, expressed as a percentage of existing jobs, in the Laredo SMSA—Webb County. This area's salaried nonfarm employment fell by 17 percent between March 1982 and March 1983, as 6,350 jobs were lost [see attachment 5]. Over half of these retrenchments occurred in trade, where the retail sector dropped 3,100 positions. Although the number of jobs lost in wholesale trade was not as large, this segment was down by 32 percent. Construction activity slowed, and the number of jobs in this category fell by 23 percent over the year. Manufacturing declined by 21 percent, with most of the decrease concentrated in nondurable goods industries.

The number of jobs in the McAllen-Pharr-Edinburg SMSA—Hidalgo County—dropped by 5,250, or 6 percent, between March 1982 and March 1983 [see attachment 3]. Although the wholesale trade sector held its own during this period, retail trade lost 3,850 jobs, pulling the trade category down by 12 percent. Manufacturing employment was cut by 1,550 positions over the year, for a 15-percent loss; and construction jobs were down by 350, or 6 percent. This area has been buoyed somewhat during the recent months by tourism, which has continued to flourish, and by the "snowbirds," winter visitors who migrate to Texas and remain in this area until spring each year.

It appears that no full recovery from the problems faced by these border cities is imminent. Many economists expect that no real relief will be forthcoming unless these areas can restructure and convert at least a portion of their economic base to industries which are less volatile and less dependent upon interaction with Mexico. We have, as you mentioned, substantially high percentages of unemployment in the Lower Rio Grande Valley area.

Although manufacturing has absorbed most of the large layoffs, retail trade has suffered substantial cutbacks. Retail trade establishments, however, tend to employ fewer workers per unit than their manufacturing counterparts and consequently do not always appear on the list of significant layoffs; that is, 100 or more that we turn in to the Department of Labor.

The cuts into retail sales also affect sales tax revenues, as the Congressman has mentioned previously. The number of job openings and placements made by our eight offices in the valley area substantially decreased, while at the same time the amount of traffic coming to our offices has increased. I want to point out that, about agricultural placements, which is one of the areas of substantial decrease in this area.

Agricultural placements within the State of Texas have been decreasing for the last few years. This decline has been due to a number of reasons such as, increased mechanization, changes in crops, more chemical and herbicide utilization and the rapid urbanization of the population in general. In fiscal year 1969, the Texas Employment Commission achieved 247,365 agricultural placements. Agricultural placements have steadily declined since. In fiscal year 1982, this agency made 52,237 agricultural placements. As of March 31, 1982 of this fiscal year this agency has made 23,206 agricultural placements.

Agricultural placements through the interstate clearance system have also been rapidly declining in the last few years, particularly since fiscal year 1981. The recent rapid decline in agricultural placements through the interstate clearance system is primarily due to the Judge Richey court order and settlement agreement with prejudice. The resultant rigid, restrictive, and inflexible Federal regulations have definitely impacted negatively on the agricultural industry nationwide. The majority of agricultural employers have left the interstate clearance system because of the overt discrimination in the regulations against them. No other employer group in this country is subjected to the unreasonable assurances and guarantees as well as the obvious surveillance through the all encompassing field checks including housing inspections, complaint solicitations from their employees and the reporting of suspected violations against them. What does this foster, but an endless array of lawsuits.

Is it any wonder then that we have declined from 54,949 agricultural interstate clearance placements in fiscal year 1967 to just 3,265 in 1982. What has happened is agricultural workers must now resort to "free wheeling" where no one has any real planning or protection.

To complicate employment problems further, our agency recently rejected an agricultural interstate clearance order from another region, because the employer was not furnishing transportation to the hired workers. In some legal maneuvering by the out-of-State employer through the H-2 visa program, the Immigration and Naturalization Department issued temporarily work permits to Mexican citizens for this employer. Texas Rural Legal Aid took pictures of the departing Mexican workers boarding commercial buses, allegedly provided by the employer. This caused not only major local problems with the Laredo unemployed, but had statewide, national and, actually, international implications on both sides of the border.

As you can readily see, the migrant and seasonal farmworkers, as well as other unemployed workers in the valley area are having an extremely hard time in obtaining and retaining gainful employment.

Over 65,000 people are out of work in the Lower Rio Grande Valley and an equal number are working reduced hours. Eight million dollars in unemployment benefits are being paid to these unemployed workers each month. The number of unemployment claims has doubled in the last year, a direct result of the recession and peso devaluation. Unfortunately, the base staff allocated for the operation of the unemployment insurance program increased only slightly from fiscal year 1982 to fiscal year 1983.

Ideally, all States submit minimum workload estimates, based on prior production, to the Department of Labor for the future year's funding. These figures are the basis for our budget, with a provision for contingency funding of all workload above this baseline. However, the funding process in Washington is predetermined by other factors. The system is funded from a top-down approach, which requires "adjustments" to projected workloads to stay within resources allocated by Congress. On the surface, it seems fair to fund reduced production and allow for funding of all work above

this base. In reality, we are given $28,171 per base position and only $17,600 for each additional contingency position. This type of funding is difficult to manage at best, but is possible to control in geographic areas with stable unemployment.

The Rio Grande Valley has unique problems caused by the cyclical nature of migrant seasonal farm work. The farmworkers return to the South at the beginning of our fiscal year when we have no carryover of contingency earnings.

Funding of contingency positions occurs when migrant seasonal farm worker workloads are experienced above base and an added position can be fully justified by budgeted time factors. What we are funded by is what the budget says our time factors should be, regardless of what it takes to do a proper job. When workloads justify an additional position above staff, we hire a temporary worker. This takes time. We must use the State merit system to obtain a list of eligibles from which to hire. Once hired, training must be provided before that person can be expected to perform the job adequately. Being a new employee, close supervision is required, thereby taking time of trained personnel. When fully trained, a drop in the workload or working maximum hours allowed necessitates dismissal from the job. At each point, proper service to the public is diminished.

We are paid on the basis of the lesser of what we earn and what we use as far as time charges are concerned. If we earn the position but do not have the person on the payroll charging time, we lose. If we have the person on the payroll and do not have the workload to justify their position, we lose also, because without production we cannot get paid. Under this arrangement, the Federal Government wins every time. When the staff is not on board, they get production that they do not pay for.

When the staff is on board and the production is not there to support them, they do not pay. It is like having a two-headed coin where "heads, I win—tails, you lose." Either way, the State is left holding the bag.

Texas, being as large a State as it is, has unique problems. With a land area of 262,134 square miles, it is as large as 244 Rhode Islands. Our offices are distributed throughout the State with approximately one office per 100,000 population. Texas is experiencing such an increase in population that three new offices would have to be established each year to stay even.

Now to the problem I am trying to describe. The southern border may suddenly have an increase in claims activities. At the same time, Dallas-Fort Worth may experience a decline in its workload so that the State as a whole is not earning any contingency positions. The location of the increase may be 600 miles from where the decline is taking place. You cannot transfer staff this far. Yet, you have a workload which must be dealt with without the ability to adjust properly. We adjust as well as we can under the circumstances, but the public suffers to some extent when this situation exists.

Under the current budget policy, the Texas Employment Commission cannot hire the staff quickly enough to correspond with the workload increase, so we have dollar savings. With the quarterly adjustments, the Employment Commission loses the money

"saved" by not being fully staffed; "savings" are recaptured by the Department of Labor. I urge you to appropriate the funds necessary to adequately staff our employment offices to deliver services to the needy individuals of this economically depressed area.

One simple solution which I believe is use a 3-year moving average to determine what the base staff should be in the States and local offices. It is interesting to note that from 1978 through 1984, the unemployment rate and the Federal Government has issued based staff since 1981 on an average weekly insured unemployment of 2.1 million. However, the actual work for 1981 was 3.69 million; in 1982, 4.2 million; in 1983 it is 4.45 million; and projected 1984, 3.86 million. That converts into base as staff, 57 percent for 1981, 50 percent in 1982, 47 percent in 1983, and only 54 in 1984, if that workload decreases. And I do not anticipate seeing that much of a decrease in workload in Texas.

What the system has—is asked to do, we are to collect about 18—$18,676,000 in State taxes, pay $26,330,000 in benefits to 11,470,000 beneficiaries, and we are to do this with half our workload being temporaries. Temporaries only have, in Texas, like they work 1,200 hours, then they got to change. So we are substantially being hurt by this type of contingency funding. And especially in the valley areas.

With high unemployment, crowded offices and waiting lines several blocks long, our temporary employees are forced to perform jobs with a minimum of training. This condition results in increased error rates which would not occur with adequate staffing. The size of our offices are determined by the size of base staff we have. Currently, for example, our Laredo local office was designed to comfortably accommodate 32 base positions plus the service area for claimants/applicants. The office manager presently employs 32 base staff, plus 37 temporaries and is open full service from 7 a.m. in the morning to 6 p.m. to meet the needs of his area.

In some offices, in Houston I think we have like 4½ UI base staff but 22 temporaries. In Abilene, which has had historically low employment, they have about a 3 base staff and 17 temporaries. Some of these offices we could put more temporaries in to increase our earnings and better serve the applicant, but we just don't physically have the space. Office space is based on how much permanent staff we have allocated. So this is one of our major problems.

In conclusion, I believe the subcommittee would have a better understanding of the size and breadth of this State and the unique problems in administering the basic programs of an employment security agency, if the data you are being furnished today regarding the Texas border area is compared against another State. Such a State might be West Virginia, which is getting a lot of publicity nationwide because of its high unemployment rates. While West Virginia may compare favorably with this particular area because of geographical size, population rates may differ but unemployment rates are similar.

In addition, additional problems you have in this area are undocumented workers, migrant seasonal farm worker, or the cultural and language differences which exist there. Accordingly, there are several different geographical areas of Texas which are as different as our border area is to the State of West Virginia while at the

same time having many similarities, especially with the way we are being funded.

At this time I would be happy to answer questions.

Mr. HANCE. Thank you very much, Ernie.

[The prepared statement with attachments follow:]

STATEMENT OF ERNIE W. TULLIS, ADMINISTRATOR, TEXAS EMPLOYMENT COMMISSION

Mr. Chairman, members of the Subcommittee, my name is Ernie Tullis. I am Administrator of the Texas Employment Commission.

I would like to begin with a brief economic overview of the Lower Rio Grande Valley area. Prior to the latter half of 1982, this area was experiencing strong growth, with most segments of the economy gaining strength. The "twin plant" concept, which allows a company to locate one plant on the Mexican side of the border and another on the Texas side, had drawn many new businesses into the area; and manufacturing was flourishing. In the past eight to ten months, however, the economic health of this area has faltered, as the peso devaluation combined with the effects of the National recession to shake the foundations of the area's prosperity. The dependence on trade with Mexico, which has been a basic part of the economy, caused the Texas border areas to be hurt almost as badly as their Mexican counterparts when the value of the peso fell.

Although the majority of the cutbacks during the past year in the border areas have occurred in manufacturing and trade, other industry sectors have also been affected. Many segments of the economy are interconnected, and declines in one sector led inevitably to similar drops in another. Curtailments in one industry frequently idle workers in other, subsidiary industries. The loss of purchasing power among those laid off also contributes to the decline in the overall economy.

The El Paso SMSA, although it is not in the Lower Rio Grande Valley, is the only other metropolitan area bordering on Mexico. El Paso has been the least severely impacted of Texas' four border areas during the past year. According to TEC statistics, the total number of salaried non-farm jobs has dropped by 5,350—or 3 percent—between March 1982 and March 1983 (See Attachment 4). El Paso has the largest and most diverse economy of the four large border areas, and this dispersion of industry has helped it weather the current crisis better than its sister cities. Jobs in manufacturing decreased by eight percent over the year, while trade employment declined by five percent. Construction activity declined by nine percent during this period.

In contrast, the hardest hit of the border areas during the past year was the Brownsville-Harlingen-San Benito SMSA (Cameron County). The number of salaried jobs in this area declined by 7,100, or 11 percent between March 1982 and March 1983 (See Attachment 2). Manufacturing suffered the largest cutbacks, with 3,000 fewer jobs in March 1983, for a 25 percent loss over the year. Construction was also severely curtailed in Cameron County, losing 850 jobs (a decline of 20 percent). Another 1,800 jobs were lost in retail trade alone, and the trade section as a whole dropped by 10 percent over the year.

The decrease in employment was greatest, expressed as a percentage of existing jobs, in the Laredo SMSA (Webb County). This area's salaried non-farm employment fell by 17 percent between March 1982 and March 1983, as 6,350 jobs were lost (See Attachment 5). Over half of these retrenchments occurred in trade, where the retail sector dropped 3,100 positions. Although the number of jobs lost in wholesale trade was not as large, this segment was down by 32 percent. Construction activity slowed, and the number of jobs in this category fell by 23 percent over the year. Manufacturing declined by 21 percent, with most of the decrease concentrated in nondurable goods industries.

The number of jobs in the McAllen-Pharr-Edinburg SMSA (Hidalgo County) dropped by 5,250, or six percent, between March 1982 and March 1983 (See Attachment 3). Although the wholesale trade sector held its own during this period, retail trade lost 3,850 jobs, pulling the trade category down by 12 percent. Manufacturing employment was cut by 1,550 positions over the year, for a 15 percent loss; and construction jobs were down by 350, or six percent. This area has been buoyed somewhat during the recent months by tourism, which has continued to flourish, and by the "snowbirds", winter visitors who migrate to Texas and remain in this area until Spring each year.

It appears that no full recovery from the problems faced by these border cities is imminent. Many economists expect that no real relief will be forthcoming unless these areas can restructure and convert at least a portion of their economic base to

industries which are less volatile and less dependent upon interaction with Mexico. Many of these cities, like the McAllen area, are already beginning to emphasize tourism by planning advertising campaigns to attract visitors from other states and from Canada. Other areas are considering trying to attract different types of industry which will make their economy more stable.

Unemployment along the Texas-Mexico border has increased tremendously in the past few months. Historically an area of high unemployment within the State, the border counties have experienced drastic increases in unemployment since the initial peso devaluation by Mexico in late summer of 1982 (See Attachment 1). Nowhere has the surge in unemployment been more pronounced than in Webb County, which comprises the Laredo Metropolitan Statistical Area.

Webb County had 4,149 unemployed residents in March 1981 with an unemployment rate of 10.8 percent. These totals had increased to 5,269 unemployed and a 12.7 percent unemployment rate by March 1982. The March figure for 1983 reveals total unemployment for the county of 12,526 and an associated rate of 28.9 percent. Smaller increases occurred in other border counties, although all were up significantly. Below are the number of unemployed and the unemployment rates for five other border counties reflecting March data for the years 1981-83.

County	March 1981		March 1982		March 1983	
	Number unemployed	Percent unemployed	Number unemployed	Percent unemployed	Number unemployed	Percent unemployed
Cameron	8,081	9.5	8,946	10.2	14,715	17.0
El Paso	16,413	8.9	17,707	9.4	26,601	13.6
Hidalgo	12,289	12.3	15,189	13.4	23,932	20.5
Maverick	3,797	33.8	3,231	30.2	5,032	39.9
Val Verde	1,358	12.1	1,464	12.8	2,365	18.7

The total number of unemployed for these five counties plus Webb County rose from 51,806 in March 1982 to 85,171 by March 1983—an increase of 64.4 percent in one year.

The number of significant layoffs within these counties corresponds to the rise in unemployment. During calendar year 1982 there were six layoffs involving 100 or more workers. These six layoffs put 1,254 persons out of work for at least a portion of the year. Thirteen additional layoffs were reported during 1982 involving 2,397 workers. The first four months of 1983 have seen seven more layoffs involving 882 workers. Manufacturing industries were hardest hit by sizeable layoffs, but retail trade, service, and government also were affected.

Although manufacturing has absorbed most of the large layoffs, retail trade has suffered substantial cutbacks. Retail trade establishments, however, tend to employ fewer workers per unit than their manufacturing counterparts and consequently do not always appear on the list of significant layoffs (100 or more workers.) A study by a Laredo State University research team earlier this year indicates the magnitude of the cutback in retail trade. In Laredo, retail sales were down 73 percent from the same period during the prior year. Similar decreases were reported in Brownsville and Eagle Pass. Del Rio and El Paso reported declines in sales in the 30-40 percent range.

The cuts into retail sales also affect sales tax revenues, which are a main funding source for city services. Laredo was forced to trim city payrolls following the second devaluation and further layoffs were likely. The devaluations have increased the flow of undocumented workers into the United States from Mexico, apprehensions were up 80 percent early this year and as long as the dollar remains strong the number of aliens entering this country will climb.

This flow of undocumented workers may also be affecting our Job Service activities. For the period ending March 31, 1983, 80.2 percent of the registered Migrant and Seasonal Farm Workers reside within a large area stretching from Del Rio to Brownsville along the Rio Grande River. This area is commonly referred to as the "Border Area" or the "Rio Grande Valley Area." Unfortunately, this area has been affected dramatically by the faltering economics of the two neighbor countries, Mexico and America, causing a double-barreled effects on the "Valley Area."

As you can see by the "Handouts" furnished to each of you, the eight "Valley Area" offices are affected and will continue to be affected until there is a complete

turnaround in the economics of the two countries on both sides of the Rio Grande River.

For reference, please refer to Handouts Numbers *11, 12,* and *13,* which are a composite total of the eight offices' placement activities midway through the last three fiscal years.

As you can see, the total number of job openings placed with these eight offices by local employers has dropped from 17,794 in March, 1981, to 15,185 in March 1983, which represents a decrease of 2,609 or 14.7 percent in job openings.

For the same period, individual placements have decreased by 2,520 or 18.5 percent. Placements Transactions have shown a simliar decrease of 3,131 of an 18.3 percent drop.

Referring to the same Handouts, the Laredo Office has suffered a 1,540 or 45.8 percent decrease in job openings; a 999 or 54.1 percent decrease in individual placements; and a 1,315 or 44.6 percent in placement transactions. This is typical of our "Valley Area" offices during the last one to two years.

During the same period for the eight "Valley Area" offices, total new and renewal applications are up by 4,560 or 7.6 percent. Yet, individual placements of Migrant and Seasonal Farm Workers are down by 368 or 13.4 percent and placements transactions of Migrant and Seasonal Farm Workers are down by 382 or 11.8 percent.

Agricultural Placements within the State of Texas have been decreasing for the last few years. This decline has been due to a number of reasons such as, increased mechanization, changes in crops, more chemical and herbicide utilization and the rapid urbanization of the population in general. In fiscal year 1969, this agency achieved 247,365 agricultural placements. Agricultural placements have steadily declined since. In fiscal year 1982, this agency made 52,237 agricultural placements. As of March 31, 1982 of this fiscal year this agency has made 23,206 agricultural placements.

Agricultural placements through the Interstate Clearance System have also been rapidly declining in the last few years, particularly since fiscal year 1981. The recent rapid decline in agricultural placements through the Interstate Clearance System is primarily due to the Judge Richey Court Order and Settlement Agreement with Prejudice. The resultant rigid, restrictive and inflexible Federal Regulations have definitely impacted negatively on the agricultural industry nationwide. The majority of agricultural employers have left the Interstate Clearance System because of the overt discrimination in the regulations against them. No other employer group in this Country is subjected to the unreasonable assurances and guarantees as well as the obvious surveillance through the all encompassing field checks including housing inspections, complaint solicitations from their employees and the reporting of suspected violations against them. What does this foster, but an endless array of lawsuits.

Is it any wonder that we have declined from 54,949 Agricultural Interstate Clearance Placements in fiscal year 1967 to 3,265 in fiscal year 1982. So far this fiscal year, this agency has made 1,580 Agricultural Interstate Clearance Placements through June 1, 1983. Both the agricultural employers and employees have been forced to work outside the Clearance System. The agricultural workers must now resort to "free wheeling" where no one has any real planning or protection.

To complicate employment problems further, our agency recently rejected an Agricultural Interstate Clearance Order from another region, because the employer was not furnishing transportation to the hired workers. In some legal maneuvering by the out-of-state employer through the H-2 Visa Program, the Immigration and Naturalization Department issued temporarily work permits to Mexican citizens for this employer. Taxas Rural Legal Aid took pictures of the departing Mexican workers boarding commercial buses, allegedly provided by the employer. This caused not only major local problems with the Laredo unemployed, but had state-wide, national and, actually, international implications on both sides of the border.

As you can readily see, the Migrant and Seasonal Farm Workers, as well as other unemployed workers in the "Valley Area" are having an extremely hard time in obtaining and retaining gainful employment.

Over 65,000 people are out of work in the lower Rio Grande Valley and an equal number are working reduced hours. Eight million dollars ($8 million) in unemployment benefits are being paid to these unemployed workers each month. The number of unemployment claims has doubled in the last year, a direct result of the recession and peso devaluation. Unfortunately, the base staff allocated for the operation of the Unemployment Insurance Program increased only slightly from fiscal year 1982 to fiscal year 1983.

Ideally, all states submit minimum workload estimates, based on prior production, to the Department of Labor for the future year's funding. These figures are the

basis for our budget, with a provision for contingency funding of all workload above this baseline. However, the funding process in Washington is predetermined by other factors. The system is funded from a top-down approach, which requires "adjustments" to projected workloads to stay within resources allocated by Congress. On the surface, it seems fair to fund reduced production and allow for funding of all work above this base. In reality, we are given $28,171 per base position and only $17,600 for each additional contingency position. This type of funding is difficult to manage at best, but is possible to control in geographic areas with stable unemployment.

The Rio Grande Valley has unique problems caused by the cyclical nature of migrant seasonal farm work. The farmworkers return to the south at the beginning of our fiscal year when we have no carryover of contingency earnings.

Funding of contingency positions occurs when MSFW (Migrant Seasonal Farm Worker) workloads are experienced above base and an added position can be fully justified by budgeted time factors. What we are funded by is what the budget says our time factors should be, regardless of what it takes to do a proper job. When workloads justify an additional position above staff, we hire a temporary worker. This takes time. We must use the State Merit System to obtain a list of eligibles from which to hire. Once hired, training must be provided before that person can be expected to perform the job adequately. Being a new employee, close supervision is required, thereby taking time of trained personnel. When fully trained, a drop in the workload or working maximum hours allowed necessitates dismissal from the job. At each point, proper service to the public is diminished.

We are paid on the basis of the lesser of what we earn and what we use as far as time charges are concerned. If we earn the position but do not have the person on the payroll charging time, we lose. If we have the person on the payroll and do not have the workload to fully justify their position, we lose also, because without production we cannot get paid. Under this arrangement, the federal government wins every time. When the staff is not on board, they get production that they do not pay for.

When the staff is on board and the production is not there to support them, they do not pay. It is like having a two-headed coin where "Heads, I win—tails, you lose." Either way, the State is left holding the bag.

Texas, being as large a state as it is, has unique problems. With a land area of 262,134 square miles, it is as large as 244 Rhode Islands. Our offices are distributed throughout the State with approximately one office per 100,000 population. Texas is experiencing such an increase in population that three new offices would have to be established each year to stay even.

Now to the problem I am trying to describe. The Southern Border may suddenly have an increase in claims activities. At the same time, Dallas-Fort Worth may experience a decline in its workload so that the State as a whole is not earning any contingency positions. The location of the increase may be 600 miles from where the decline is taking place. You cannot transfer staff this far. Yet, you have a workload which must be dealt with without the ability to adjust properly. We adjust as well as we can under the circumstances, but the public suffers to some extent when this situation exists.

Under the current budget policy, the Texas Employment Commission cannot hire the staff quickly enough to correspond with the workload increase, so we have dollar savings. With the quarterly adjustments, the Employment Commission loses the money "saved" by not being fully staffed; "savings" are recaptured by the Department of Labor. I urge you to appropriate the funds necessary to adequately staff our employment offices to deliver services to the needy individuals of this economically depressed area.

Service delivery has been hampered by this cumbersome funding system. The size of our local offices, which serve the public, is determined by the number of base staff assigned there. For example, our Laredo local office was designed to comfortably accommodate 32 base positions, plus the service area for claimants/applicants. The office manager presently employs 32 base staff, plus 37 temporary contingency employees, and is open for full service from 7:00 a.m. to 6:00 p.m. to meet the needs of his area.

With high unemployment, crowded offices and waiting lines several blocks long, our temporary employees are forced to perform jobs with a minimum of training. This condition results in increased error rates which would not occur with adequate staffing.

We have reduced the local offices' work as much as possible by allowing them to use a mail certification system. All claimants who are capable of completing their weekly claim properly are asked to mail them to the office biweekly. This signifi-

cantly reduces the overcrowding and long waiting lines. Correspondingly, the workload of ADP and the Mail-room have been reduced by producing and mailing one check for two weeks of unemployment benefits, rather than one check per week.

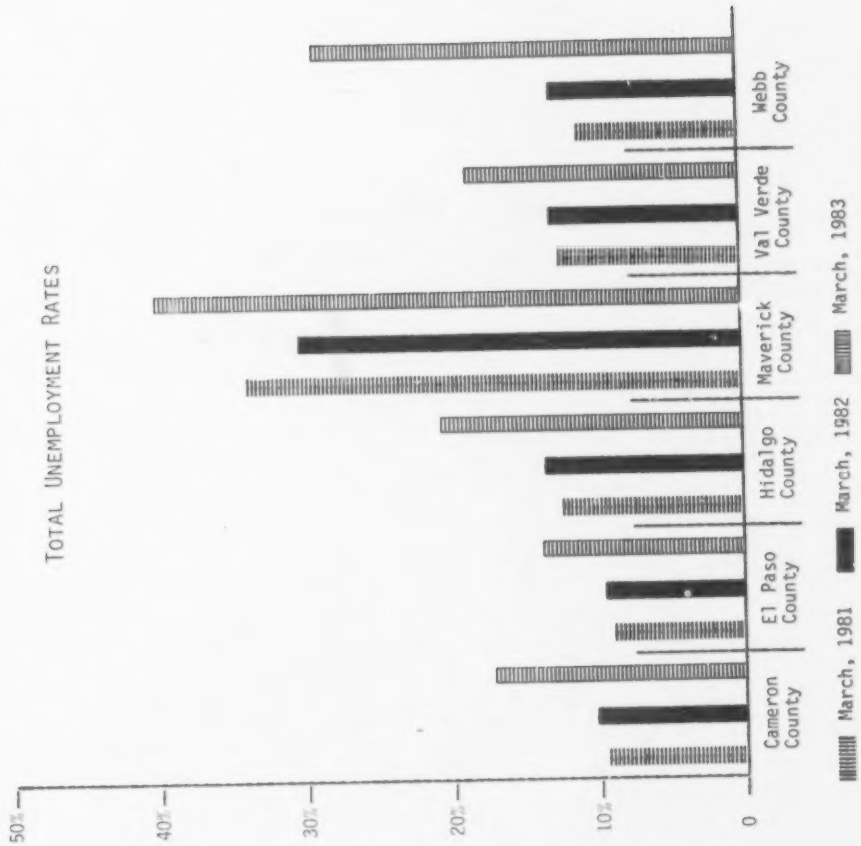
By law, Texas claimants are required "to be able, available and actively seeking work" to qualify for unemployment benefits. In the past, we have required that each individual make at least three personal job contacts a week. With extended unemployment and the depressed border economy, we have reduced the number of job contacts required.

An innovative project called "Internet" began on April 1, 1983. All states implemented a computer-linked system to process interstate claims. This initial phase allows a benefit paying state to communicate directly with the claimants residing in Texas. This procedure bypasses the agent state local office, thereby speeding up interstate claims processing, relieves local office crowding, and allows the claimant to mail his claim directly to the paying state.

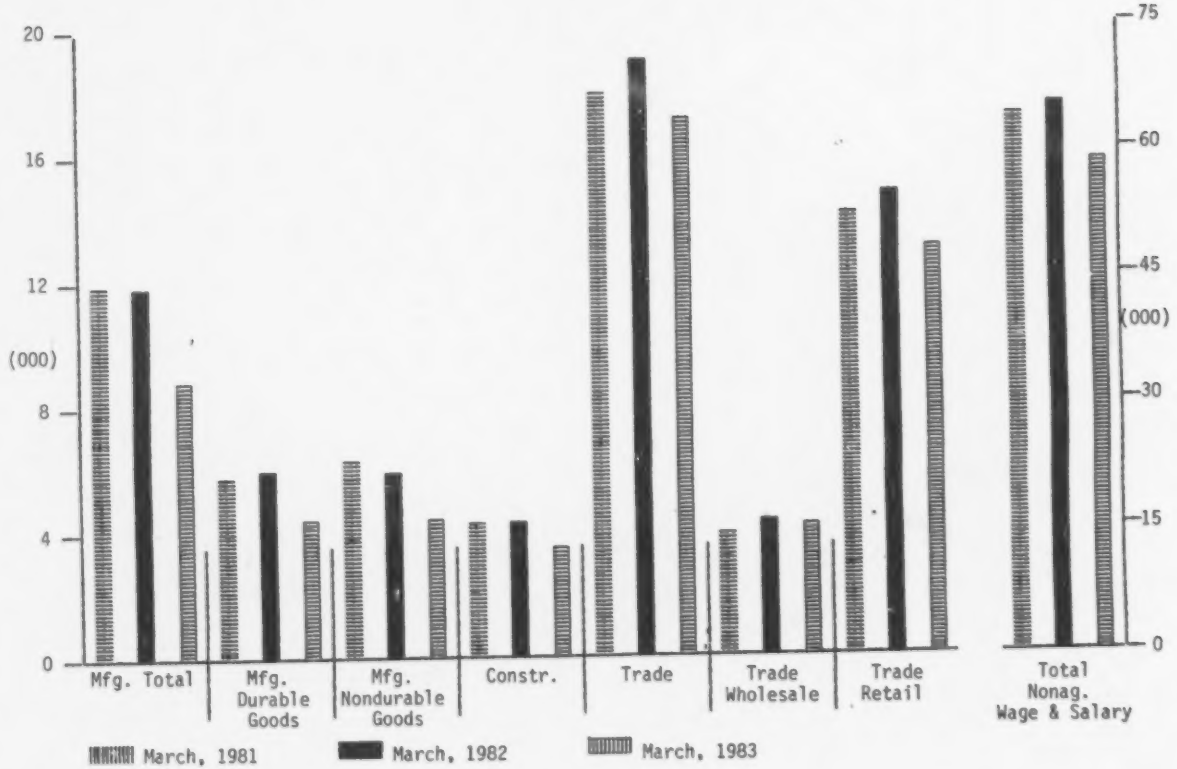
The illiteracy rate in Texas is an astounding 20 percent—and probably higher on the South Texas border. The "Internet Project" may cause additional problems for MSFW claimants who have depended on our local office staff to assist them in filing claims in another state. We are no longer funded for this service. An interstate claimant must telephone or write the paying state if a question or problem arises. This lack of service leaves an open door for private business to provide this service to claimants for a fee. Fraud and abuse could result from this type of operation.

An additional factor which will impact upon the Internet Project is the recent change by the Department of Labor to withdraw the postal franking privileges from the Employment Security agencies in their program operations. What this means is that rather than receive a blanket cost settlement with the postal service at the beginning of each federal fiscal year, the state agencies must pay postage on each piece of correspondence it mails. We in Texas believe this will substantially increase the cost of program operations, especially in the unemployment insurance program. It may have the effect of totally eliminating all the cost savings which were projected for the internet project.

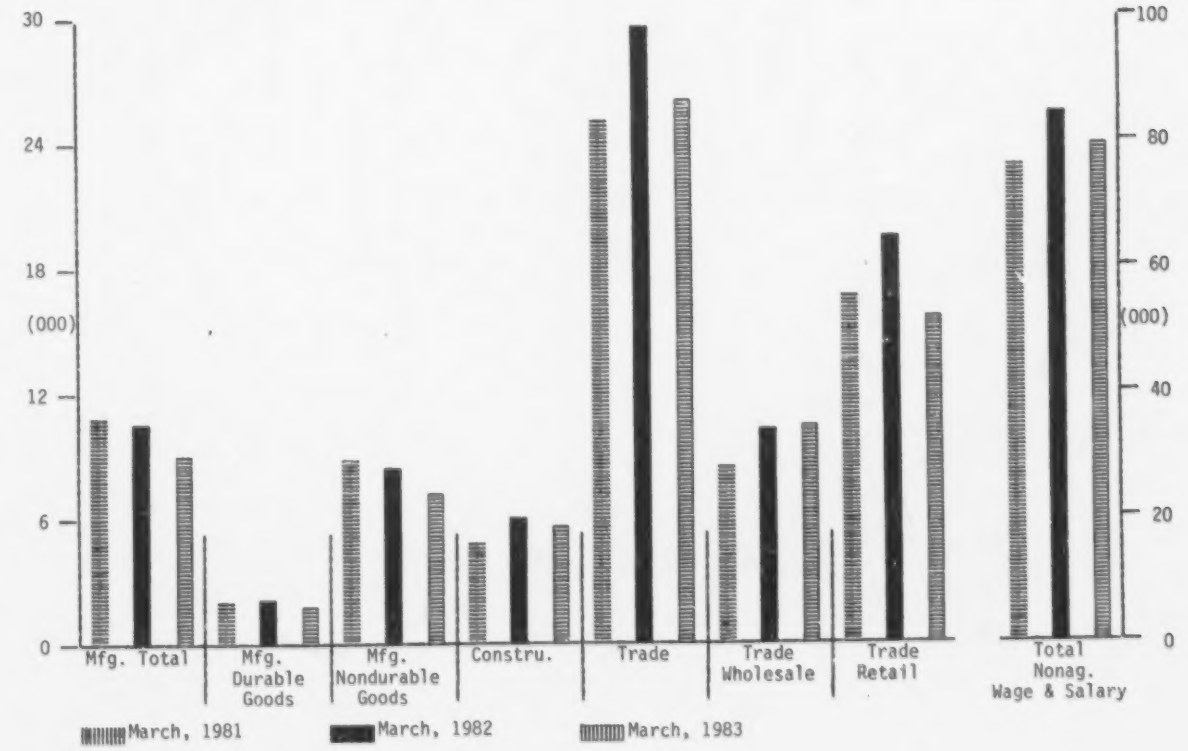
In conclusion, I believe the subcommittee would have a better understanding of the size and breadth of this state and the unique problems in administering the basic programs of an employment security agency, if the data you are being furnished today regarding the Texas border area is compared against another state. Such a state might be West Virginia. While it may be comparable in geographical size, population and unemployment rates to our border area, it would not have the additional problems of the undocumented workers, the migrant seasonal farmworker, or the cultural and language differences which exist there. Accordingly, there are several different geographical areas of Texas which are as different as our border area is to the State of West Virginia while at the same time having many similarities.


TOTAL UNEMPLOYMENT RATES
50%
40%
30%
20%
10%
0
Cameron County
El Paso County
Hidalgo County
Maverick County
Val Verde County
Webb County
March, 1981
March, 1982
March, 1983

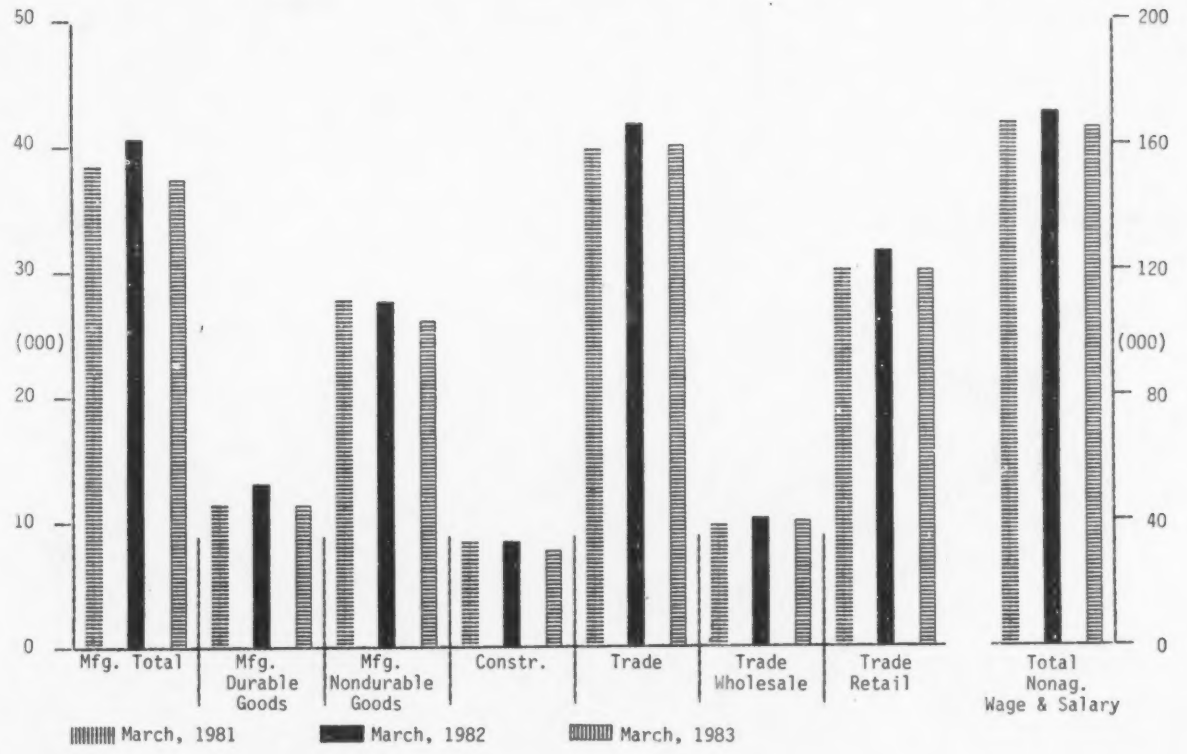
NONAGRICULTURAL WAGE & SALARY JOBS
IN SELECTED INDUSTRY SECTORS
CAMERON COUNTY



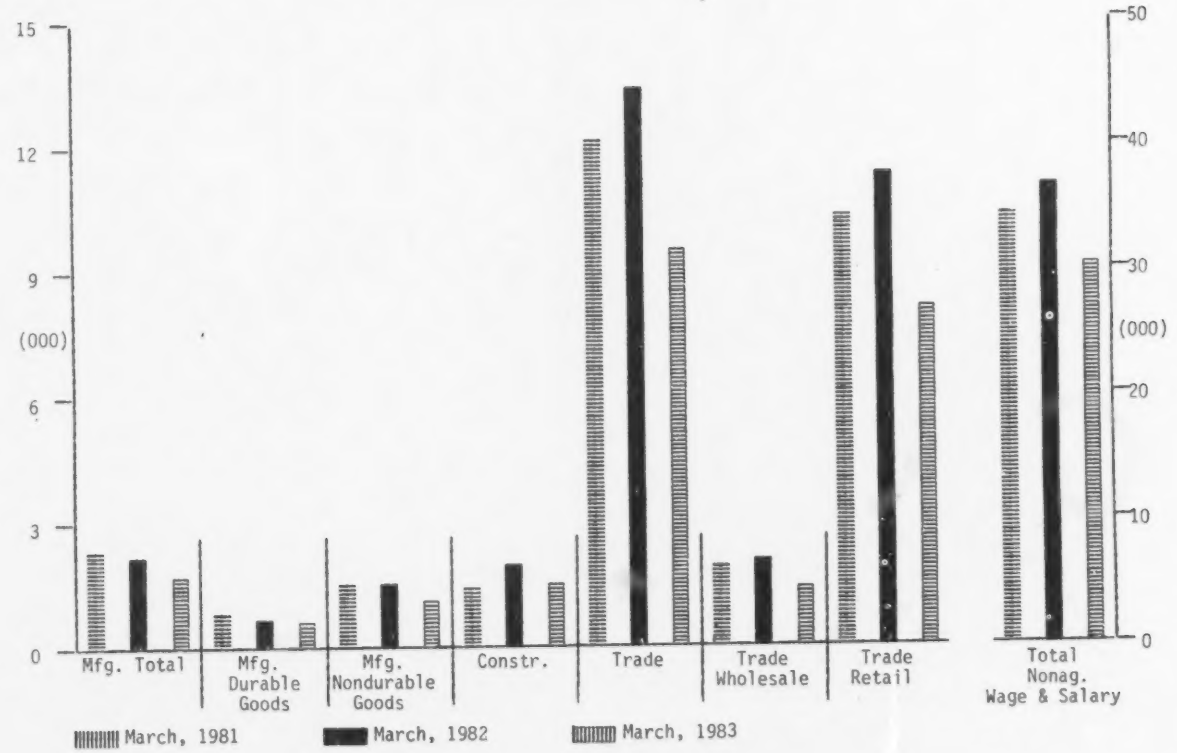
NONAGRICULTURAL WAGE & SALARY JOBS
IN SELECTED INDUSTRY SECTORS
HIDALGO COUNTY



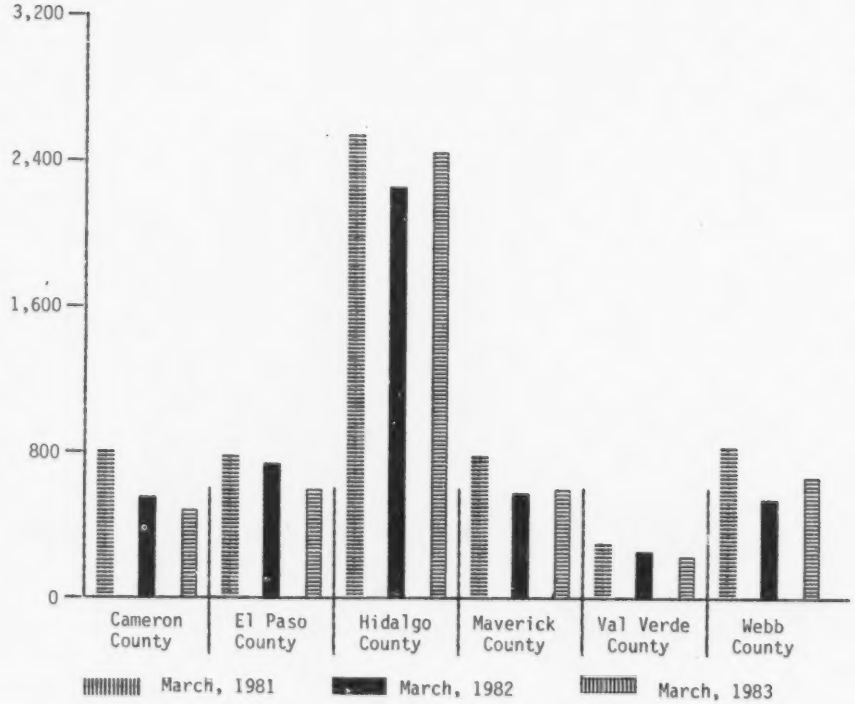
NONAGRICULTURAL WAGE & SALARY JOBS
IN SELECTED INDUSTRY SECTORS
EL PASO COUNTY

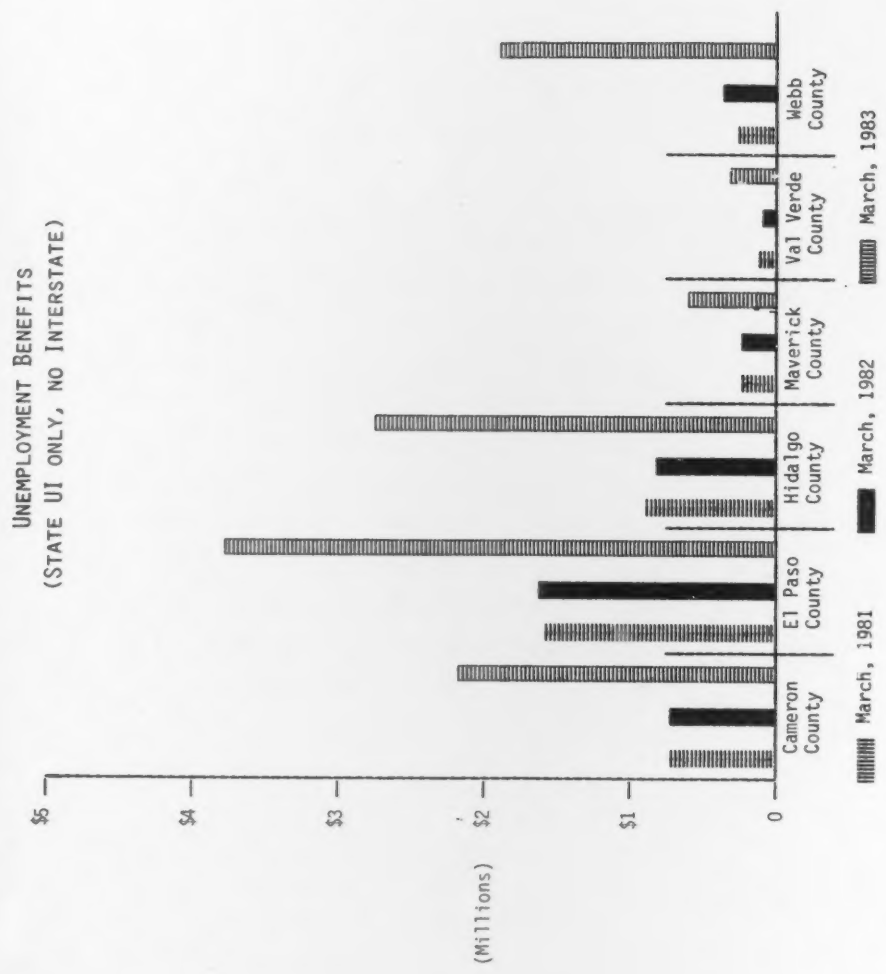


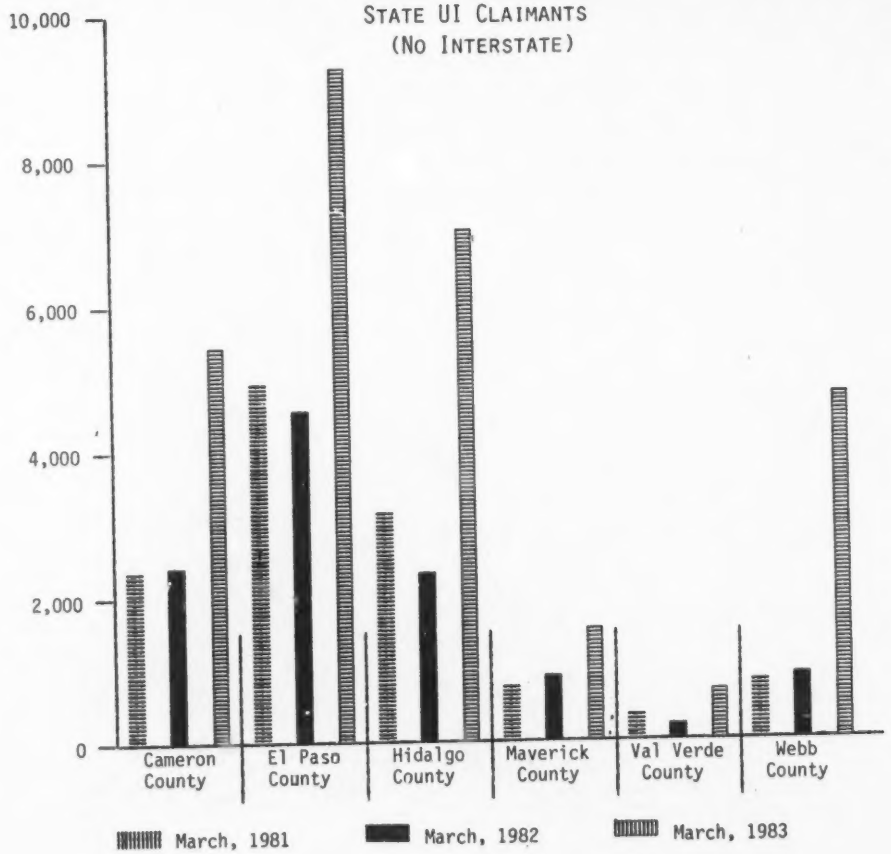
NONAGRICULTURAL WAGE & SALARY JOBS
IN SELECTED INDUSTRY SECTORS
WEBB COUNTY

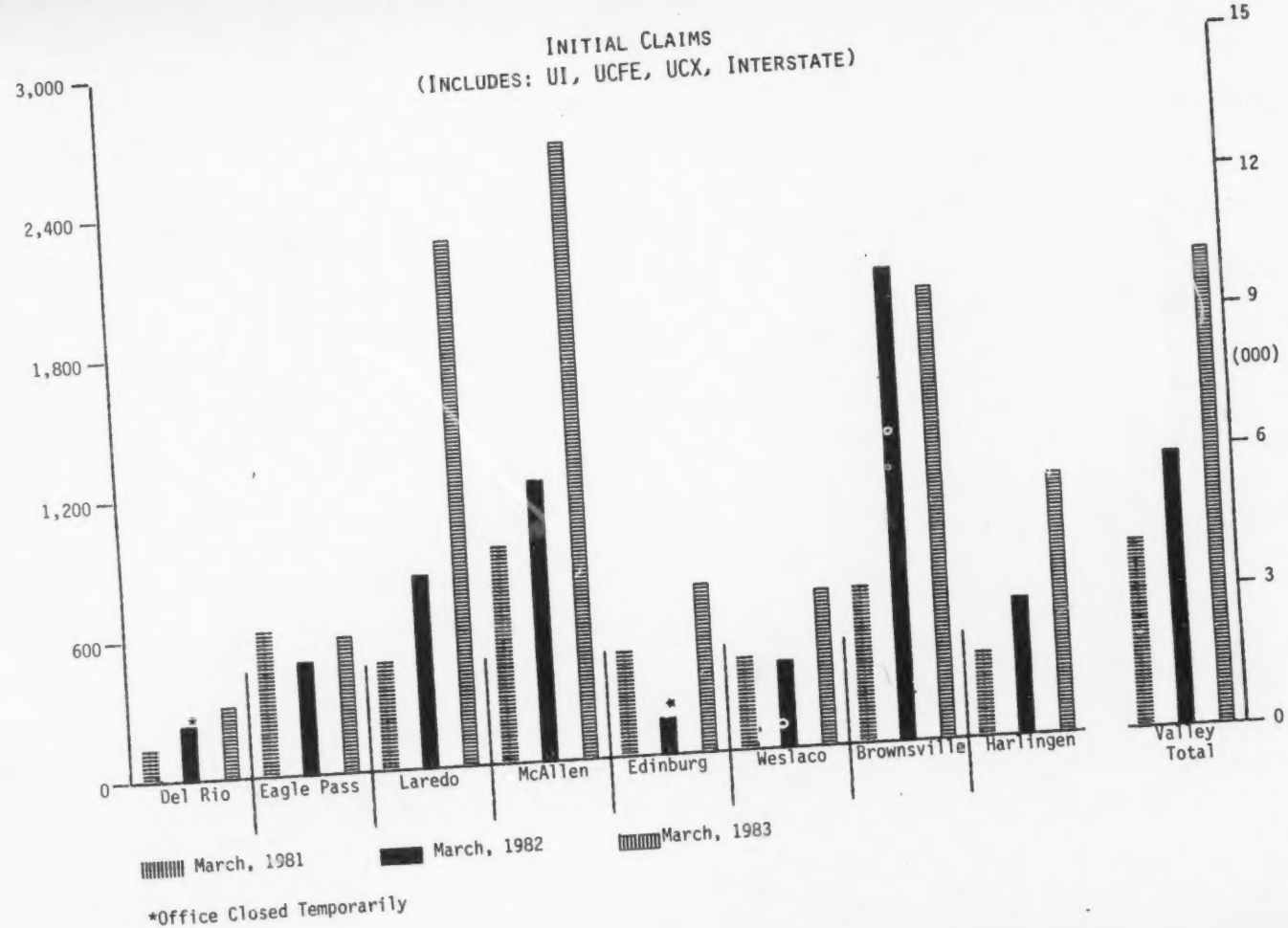


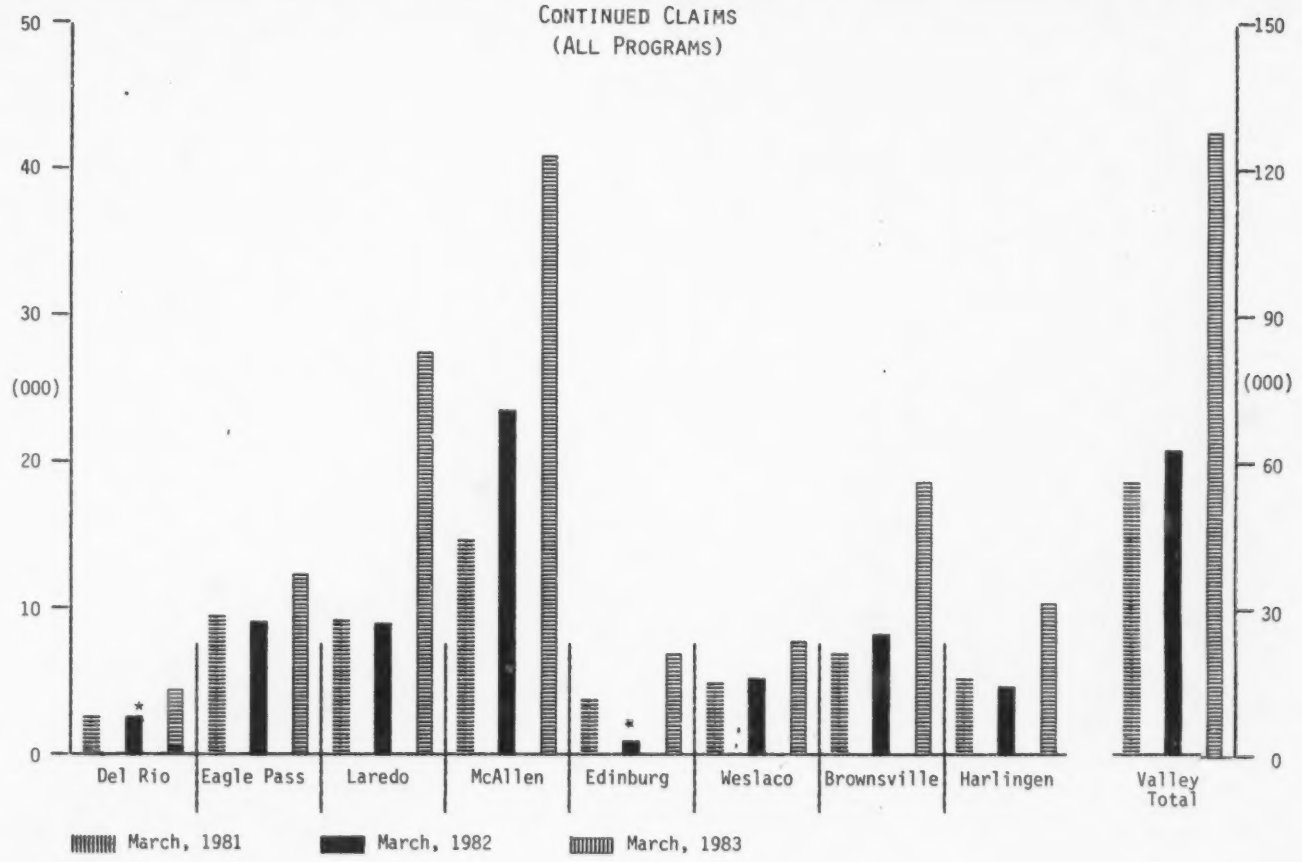
INTERSTATE CLAIMANTS
(AGENT STATE)




UNEMPLOYMENT BENEFITS
(STATE UI ONLY, NO INTERSTATE)
(Millions)
$5
$4
$3
$2
$1
0
Cameron County
El Paso County
Hidalgo County
Maverick County
Val Verde County
Webb County
March, 1981
March, 1982
March, 1983


STATE UI CLAIMANTS
(No Interstate)
10,000
8,000
6,000
4,000
2,000
0
Cameron County
El Paso County
Hidalgo County
Maverick County
Val Verde County
Webb County
March, 1981
March, 1982
March, 1983


INITIAL CLAIMS
(INCLUDES: UI, UCFE, UCX, INTERSTATE)
3,000
2,400
1,800
1,200
600
0
15
12
9
(000)
6
3
0
Del Rio
Eagle Pass
Laredo
McAllen
Edinburg
Weslaco
Brownsville
Harlingen
Valley Total
March, 1981
March, 1982
March, 1983
*Office Closed Temporarily



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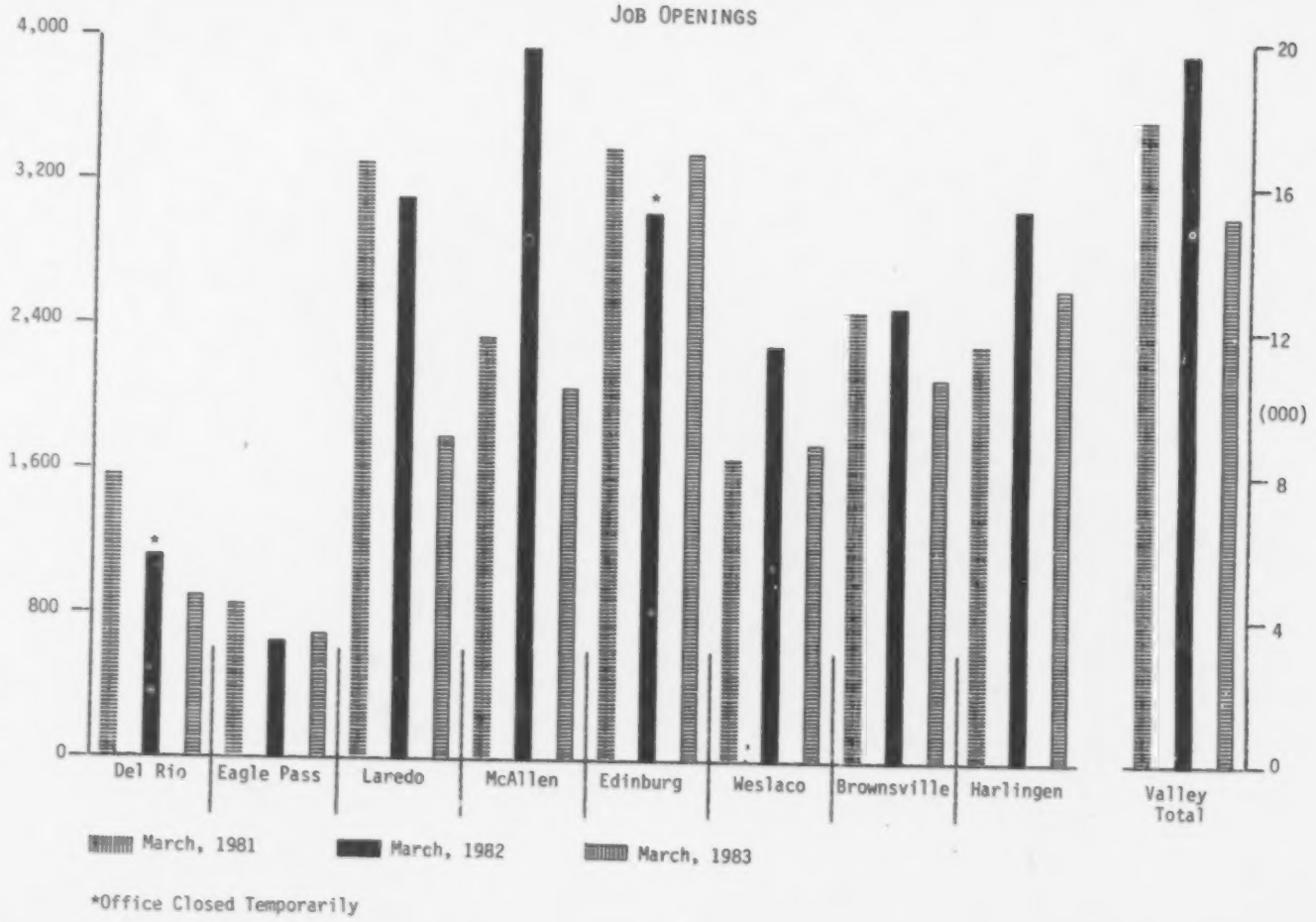
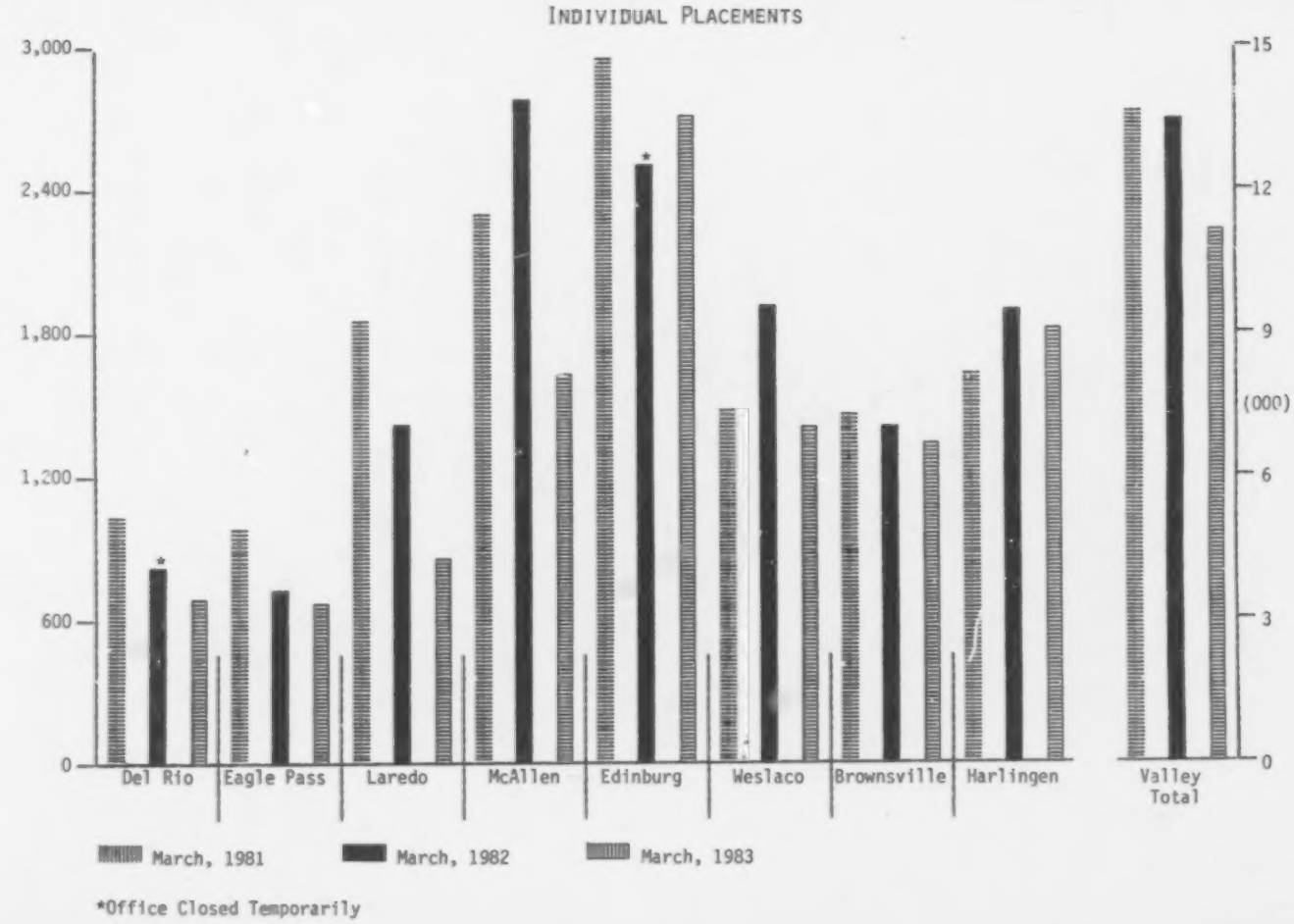
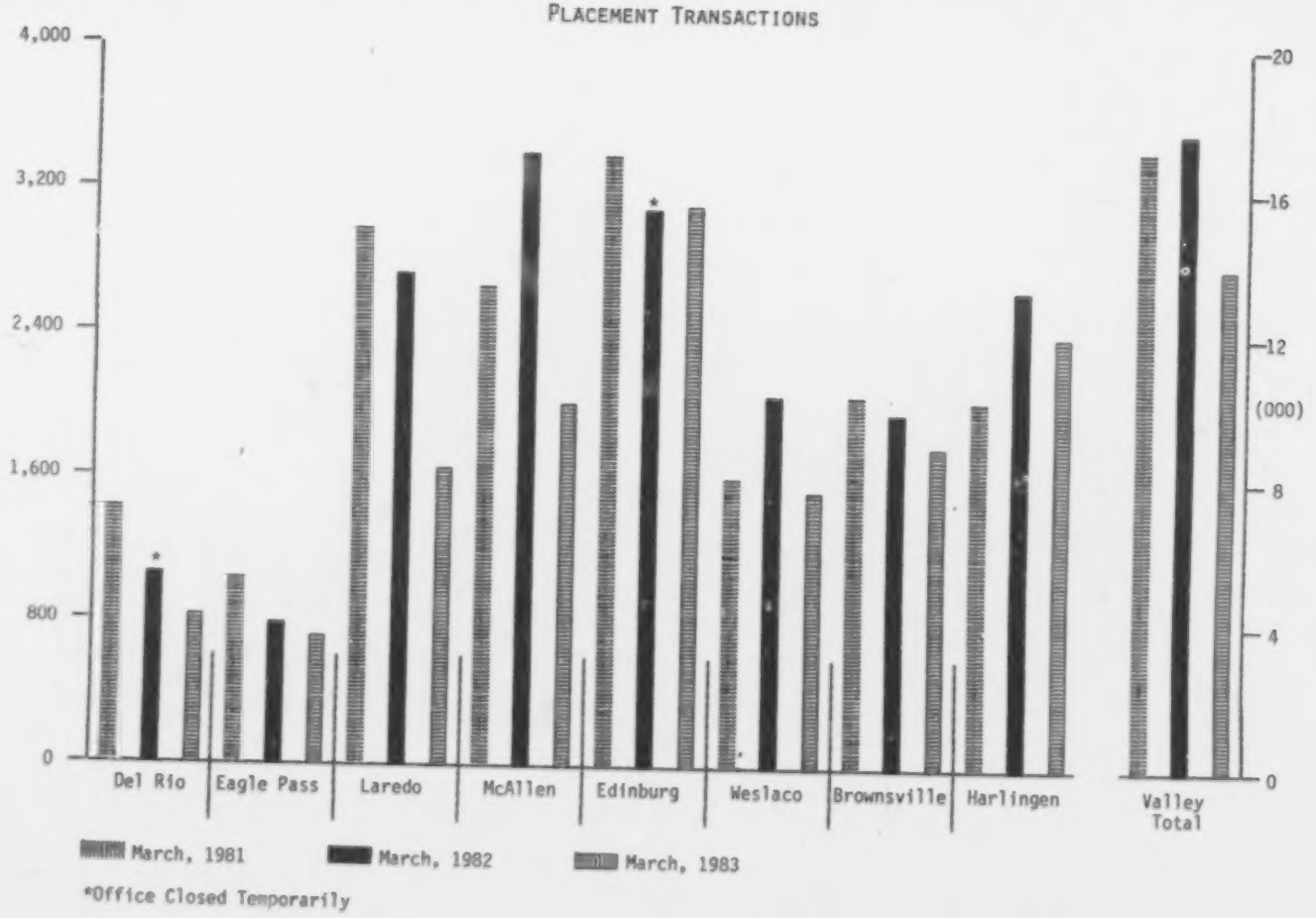

JOB OPENINGS
4,000
3,200
2,400
1,600
800
0
20
16
12
(000)
8
4
0
Del Rio
Eagle Pass
Laredo
McAllen
Edinburg
Weslaco
Brownsville
Harlingen
Valley Total
March, 1981
March, 1982
March, 1983
*Office Closed Temporarily


INDIVIDUAL PLACEMENTS
3,000
2,400
1,800
1,200
600
0
15
12
9
(000)
6
3
0
*
*
Del Rio
Eagle Pass
Laredo
McAllen
Edinburg
Weslaco
Brownsville
Harlingen
Valley Total
March, 1981
March, 1982
March, 1983
*Office Closed Temporarily


PLACEMENT TRANSACTIONS
4,000
3,200
2,400
1,600
800
0
20
16
12
(000)
8
4
0
Del Rio
Eagle Pass
Laredo
McAllen
Edinburg
Weslaco
Brownsville
Harlingen
Valley Total
March, 1981
March, 1982
March, 1983
*Office Closed Temporarily

Mr. HANCE. What I would like to do, is to go on with the other witnesses before we answer questions.

STATEMENT OF MANUEL ARREDONDO, REGIONAL ADMINISTRATOR, TEXAS DEPARTMENT OF HUMAN RESOURCES, EDINBURG, TEX.

Mr. ARREDONDO. The greatest impact the Department of Human Resources in this area has had in service has been in income assistance programs, that being aid to families with dependent children and food stamp program. Back in April 1982, for example, we were averaging in the program, in border towns, 800, 761 AFDC applications a month. It rose to a peak of 1,309 in September, and then as of April 1983, we were averaging 859. That is an average for a 12-month period of 33 percent increase in AFDC applications.

The case load, while this is going on, of course, we had to implement the Omnibus Reconciliation Act regulations which by its nature reduced the case load. However, because of the peso devaluation, that was negated since the case load went up. In April 1982, we had a case load of 8,220 cases, and it rose to a peak of 8,782 in March 1983, and stood at 8,644 in April 1983, which is an increase of about 460 cases.

Of course, the—I really don't know how much of the impact the Omnibus Reconciliation Act would have had had this peso devaluation not occurred. So that this gives you some figures. I gave you some figures there, but I don't know how to figure out just what the impact was, though. In the food stamps, back in April 1982, and I am talking about the four counties along the border, we were averaging 1,500 applications a month. And this rose to a high of 3,383 applications in October 1982. And it has tapered off to 2,003 for April 1983, on the average it has been about a 66-percent increase per month in food stamp applications.

Mr. HANCE. How much?

Mr. ARREDONDO. Sixty-six percent increase. Also, the Omnibus Reconciliation Act came into play during this time. Had it not been for that, probably we would have had maybe a 100-percent increase on the application rate. The food stamp case load back in April for the four-county area stood at 42,087 cases. It rose to a high of 51,140 in January 1983 and now as of April 1983 it stands at 49,950, which is an increase of about 7,000 cases. All the counties, for example, Cameron, Hidalgo and Webb County had an increase of more or less the same amount of cases. Cameron County in April 1982 had 12,673 cases. In April 1983 it had 14,975 for an increase of about 2,300 cases. In Hidalgo County in April 1982 we had a case load of 19,906. In April 1983 we had 22,994, for an increase of about 3,000 cases in a year's time. In Webb County we started back in April 1982 with 6,856 cases and ended up in April 1983 with 9,013 cases, which is about 2,000 cases increase.

However, I think percentagewise the greatest increase has been in Webb County because of the population there compared to the other counties it is smaller. We have a program where we collect child support under AFDC. With the unemployment rate, of course, this was affected by about 30 percent. Our collections went down about 30 percent. Another effect it has had, in the program for pro-

tective services for children we have experienced a 12-percent increase in removal of children, while we only had a 4-percent increase in child abuse referrals. I think this is a result of the economic strain on parents. Some have voluntarily come to us asking that we take care of their children while they are able to get back on their feet.

On abuse we have experienced a 4-percent increase on referrals. Again this is due to the strain the parents are under.

Mr. HANCE. The strain?

Mr. ARREDONDO. Just frustrated and they take it out on the kids, on anybody. If they come to our office, they take it out on me, too.

Mr. HANCE. We see this in my work also.

Mr. ARREDONDO. In contract services, we have a program for contract services with other agencies. We hear these agencies tell us they are no longer able to come up with the local match. Sometimes we ask for 10 percent, 15 percent, as much as 25 percent to match the Federal dollars the Department brings in. Because of the reduction in revenues to the communities they are not able to—they are having problems in meeting the local match. Of course you are aware of the unemployment rate, the way that it has increased and the way that it has impacted the border towns. Laredo is way up high, back in March I think it hit 28.8 percent?

Mr. TULLIS. Right, 28 percent.

Mr. ARREDONDO. And on down the line along the border, primarily because our economy, one of the industries here is the retail and wholesale trade. That is catering to the consumers in Mexico. I think that what needs to be addressed, and I would like to suggest that the Federal Government continue to address the development of increased human resources along the border along with economic development, maybe the EDA can make a concerted effort in developing this area.

Mr. HANCE. You think it is going to take a combination?

Mr. ARREDONDO. I believe so, yes. I think the human resources programs, especially the training programs to raise the skills of the labor force here have been very successful. However, you know, we do need to have some jobs ready for those people. And maybe what we can do is, Mr. Tullis mentioned the twin plant concept, a result of the border industrialization program that was implemented sometime back. This is being very successful in Mexico, more so than here. There are over 600 of these plants along the border and everywhere all over Mexico. This gives a lot of jobs for the people in Mexico. Mostly we have apparel industry, boots, shoes. Maybe what we could do also is, through the efforts of the Federal Government, somebody would direct, expand the free foreign trade zones around here. I think we only have one in Brownsville and one here in McAllen. I think to get into that, and develop that kind of industry.

Mr. HANCE. I want to come back in a minute and ask you a question on that.

Mr. ARREDONDO. All right. I think if we—what happens, see, each town develops their own economics. And maybe we need a concerted effort to get some of those things that can be common to all of the area. Tourism—that would be a concerted effort on the part of somebody to promote tourism, package it. To the north, I

don't know it would go that far, but promote this area for tourism purposes.

The expansion of the internal economics. Here, primarily the economy would be agricultural; you can expand that. We don't have too much manufacturing, per se, around this area. We should try to attract manufacturing plants, and maybe high tech industries. But I think that that would take a concerted effort, somebody to take the lead, rather than allowing each area or town to develop their own economies that can be done. I am not saying stop that. But that which can be common to all, to the area, can be done by somebody, and everybody working together. I think including the resources, whatever they may have, to promote the tourism, promote the whole area, that it would be more effective than the Chamber of Commerce here in McAllen promoting McAllen only.

I will be glad to answer questions.

Mr. HANCE. Let me go ahead with the other witness. Then we will come back. I have some other questions.

Mr. Zaragoza?

STATEMENT OF EDMUNDO ZARAGOZA, ECONOMIC DEVELOPMENT COORDINATOR, TEXAS DEPARTMENT OF COMMUNITY AFFAIRS, AUSTIN, TEX.

Mr. ZARAGOZA. Thank you very much, Mr. Hance.

Texas Department of Community Affairs was asked to present information on retail sales and unemployment impacts of the 1982 peso devaluation in three counties. This information is submitted by our executive director. I will try to summarize it briefly.

Although we will be speaking mainly of the three counties mentioned, I think without a doubt you can take this information, and it will be valid to compare to all the other border counties from El Paso to Val Verde, Maverick, Star County, all the border counties. Also those counties in the United States that border the bordering counties. The counties are Cameron, Hidalgo, and Webb.

In February 1982, Mexico began what was to be a series of currency devaluations. The previous official devaluation occurred in 1976 when the Echeverria administration devalued the peso 50 percent, from 8 U.S. cents per peso to 4 cents. The 1982 devaluations were no less dramatic. The February diminution reduced the value of the peso by about 50 percent to 2.1 U.S. cents per peso. As the Mexican economy deteriorated under the effects of a worldwide recession and inflation rates approaching 100 percent, Mexico devalued the peso to 1.43 U.S. cents in August. Black market rates within Mexico and international currency markets valued the peso at less than 1 cent. Finally, in December 1982, with the inauguration of President Miguel de la Madrid, fixed exchange rates were removed and the peso began to float at 150 pesos per dollar, or .67 U.S. cents per peso.

As you can see in the graphs we submitted to you, you can see that 5,000 pesos in January 1982, was worth $185. In March it went to $102. In August, those same 5,000 pesos were only $50. And in December 1982, $33. The retail sales and sales tax revenues for the counties also obviously were reduced, a significant reduction. As you can see again from the graphs we submitted, the apparent

change in the counties, they had a modest growth in the first quarter, a decline in the second quarter, followed by even greater declines in the third and fourth quarters. The annual reduction in 1982 retail sales over 1981 was 13 percent in Cameron County, 11 percent in Hidalgo County, and 33 percent for Webb County.

Consequently, city sales tax allocations have fallen in the border region. Tables 4–6 list the monthly revenues and changes for some of the major cities encompassed within the Brownsville, McAllen, and Laredo SMSA's. The 1982 retail sales numbers generally decreased over 1981 in these SMSA's from April 1982 on. The city sales tax allocations, however, which report 1983 data post the greatest reductions in January and March 1983 for all of the SMSA's over the previous 17 months. The decrease of the first 5 months, January–May 1983 over the same period in 1982 was 30 percent for selected cities within Cameron County; 37 percent within Hidalgo County cities; and 51 percent within the Webb County SMSA, Laredo.

Again, most of this was submitted, most comes from the comptroller's office.

The other area the committee asked us to comment on was unemployment. The unemployment rate in those counties we are mentioning, March 1983 there were 17 percent for Cameron County, 20.5 for Hidalgo, and 28.9 percent for Webb County. As I mentioned, when I started the presentation, that I think again that you can take all the other counties in the border, and those next to the counties on the border, and I think you will see the tremendous significance the peso devaluation has had in our economy.

Thank you very much.

Mr. HANCE. I want you to look at table 4; and when I come back to you, I want you to explain to me why there is always a sudden jump in February, May, August, and November on the revenue allocations. Is that because they collected an extra tax or something? I don't know.

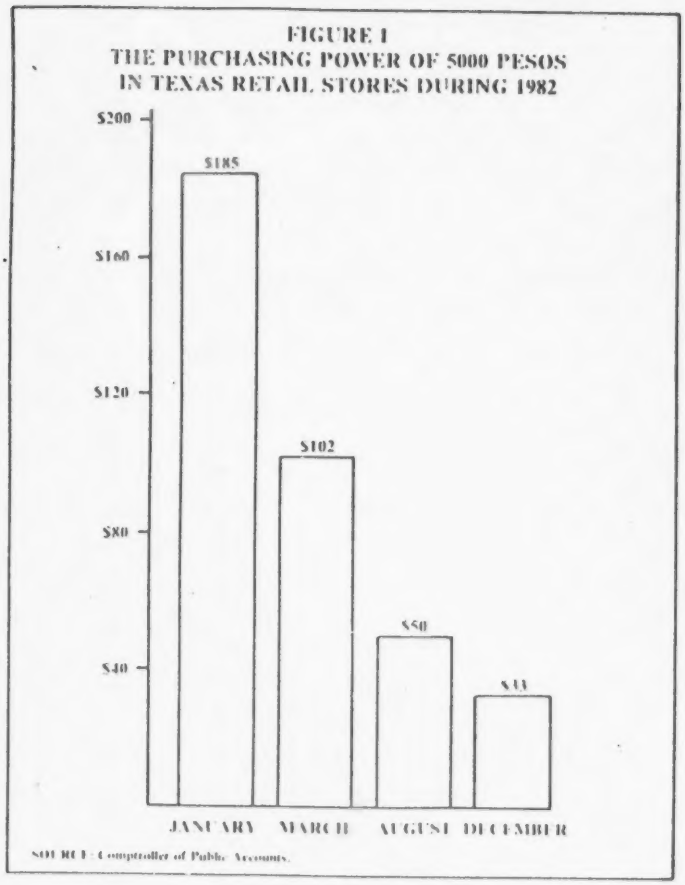
[The prepared statement follows:]

STATEMENT OF EDMUNDO M. ZARAGOZA, TEXAS DEPARTMENT OF COMMUNITY AFFAIRS

THE REDUCED PURCHASING POWER OF THE PESO IN THE UNITED STATES

In February, 1982, Mexico began what was to be a series of currency devaluations. The previous official devaluation occurred in 1976 when the Echeverria Administration devalued the peso 50 percent, from eight U.S. cents per peso to four cents. The 1982 devaluations were no less dramatic. The February diminution reduced the value of the peso by about 50 percent to 2.1 U.S. cents per peso. As the Mexican economy deteriorated under the effects of a worldwide recession and inflation rates approaching 100 percent, Mexico devalued the peso to 1.43 U.S. cents in August. Black market rates within Mexico and international currency markets valued the peso at less than one cent. Finally, in December, 1982, with the inauguration of President Miguel de la Madrid, fixed exchange rates were removed and the peso began to float at 150 pesos per dollar, or .67 U.S. cents per peso. Figure 1 illustrates the dramatic decline in purchasing power of the peso in dollars in 1982. The February devaluation reduced dollar purchasing power by 45 percent; the August reduction in value diminished the peso's dollar value by 51 percent; and the December peso float readjusted the value of the peso downward by 34 percent. Altogether the reduction in value of the peso from January to December, 1982, was 82 percent.

As Mexico may be intervening in international currency markets to maintain the 150 peso exchange rate a further decline in the value of the peso may result if the defense of the peso is withdrawn. In this event, greater reductions in the purchasing power of the peso and in border retail sales will likely result. The possible impact of such a move, however, is speculative in nature.



Source: Phillip Diehl, Office of the Comptroller, "The Effects of the Mexican Peso Devaluations on the Texas Economy," Fiscal Notes, 83 No. 4 (March, 1983).

COINCIDENT REDUCTIONS IN RETAIL SALES AND SALES TAX REVENUES

Cameron, Hidalgo, and Webb counties contain the Brownsville, McAllen, and Laredo Standard Metropolitan Statistical Areas (SMSAs), respectively. These counties have shown significant reductions in retail sales in the last three quarters of 1982 over similar periods in 1981. Tables 1-3 present the 1981-82 retail sales figures for these counties. The apparent pattern of change in these counties is modest growth in the first quarter, a decline in the second quarter followed by even greater declines in the third and fourth quarters. The annual reduction in 1982 retail sales over 1981 was 13 percent in Cameron County, 11 percent in Hidalgo County, and 33 percent for Webb County.

Consequently, city sales tax allocations have fallen in the border region. Tables 4-6 list the monthly revenues and changes for some of the major cities encompassed within the Brownsville, McAllen, and Laredo SMSAs. The 1982 retail sales numbers generally decreased over 1981 in these SMSAs from April 1982 on. The city sales tax allocations, however, which report 1983 data post the greatest reductions in January and March of 1983 for all of the SMSAs over the previous seventeen months. The decrease of the first five months (January-May) of 1983 over the same period in 1982 was 30 percent for selected cities within Cameron County; 37 percent within Hidalgo County cities; and 51 percent within the Webb County SMSA, Laredo. These reductions, it should be noted, follow the reduced or negative city sales tax revenues of 1982.

TABLE 1.—CAMERON COUNTY RETAIL SALES, BROWNSVILLE SMSA

	1981	1982	Percent change
1st quarter	$281,676,187	$313,112,553	11
2d quarter	315,581,241	299,176,969	−5
3d quarter	345,411,672	283,239,336	−18
4th quarter	381,040,193	262,099,142	−31
Total	1,323,709,293	1,157,628,000	−13

Source: Comptroller of Public Accounts, "County Retail Sales Report," (Austin, 1983).

TABLE 2.—HIDALGO COUNTY RETAIL SALES, McALLEN SMSA

	1981	1982	Percent change
1st quarter	$359,588,412	$408,786,071	14
2d quarter	383,532,438	375,956,678	−2
3d quarter	402,433,964	335,351,168	−17
4th quarter	487,526,365	337,374,118	−31
Total	1,633,081,179	1,457,468,035	−11

Source: Comptroller of Public Accounts, "County Retail Sales Report," (Austin, 1983).

TABLE 3.—WEBB COUNTY RETAIL SALES, LAREDO SMSA

	1981	1982	Percent change
1st quarter	$227,683,505	$229,702,803	1
2d quarter	264,562,375	201,528,416	−24
3d quarter	270,700,430	160,314,239	−41
4th quarter	331,068,678	140,341,830	−58
Total	1,094,014,988	731,887,378	−33

Source: Comptroller of Public Accounts, "County Retail Sales Report," (Austin 1983).

TABLE 4.—CITY SALES TAX ALLOCATIONS WITHIN CAMERON COUNTY, BROWNSVILLE-HARLINGEN-SAN BENITO

	1981	1982	1981–82 Percent change	1983	1982–83 Percent change
January	$365,653	$397,670	9	$264,818	−33
February	1,127,809	1,330,682	18	1,084,745	−18
March	448,181	660,896	47	296,897	−55
April	266,032	354,044	33	278,381	−21
May	1,215,980	1,202,333	−1	854,805	−29
June	321,330	343,290	7		
July	362,650	365,072	1		
August	804,168	1,176,485	46		
September	478,283	506,881	6		
October	440,267	299,503	−32		
November	1,317,656	1,092,298	−17		
December	471,886	378,985	−20		
Total	8,206,687	8,108,236	1		
January–May	3,383,655	3,945,625	17	2,779,646	−30

Source: Comptroller of Public Accounts, computer printout (Austin, May 12, 1983)

TABLE 5.—CITY SALES TAX ALLOCATIONS WITHIN HIDALGO COUNTY, McALLEN-EDINBURG-PHARR

	1981	1982	1981–82 percent change	1983	1982–83 percent change
January	$430,396	$562,809	+31	$298,319	−47
February	1,092,423	1,409,822	29	1,063,822	−25
March	510,511	845,725	66	344,085	−59
April	338,112	478,487	42	338,152	−29
May	1,231,088	1,216,552	−1	807,040	−34
June	378,030	421,839	12		
July	430,400	485,331	13		
August	1,172,486	1,116,810	−5		
September	524,991	587,034	14		
October	516,605	375,496	−27		
November	1,259,017	920,073	−27		
December	541,433	410,174	−24		
Total	8,425,573	8,830,152	5		
January–May	2,602,530	4,513,395	73	2,851,418	−37

Source: Comptroller of Public Accounts, computer printout (Austin, May 12, 1983).

TABLE 6.—CITY SALES TAX ALLOCATIONS WITHIN WEBB COUNTY, LAREDO

	1981	1982	1981–82 percent change	1983	1982–83 percent change
January	$311,526	$350,036	12	$131,342	−62
February	948,170	1,177,395	24	635,077	−46
March	397,823	556,187	40	172,996	−69
April	260,359	293,621	13	145,225	−51
May	1,022,639	913,523	−11	520,039	−43
June	293,970	254,602	−13		
July	311,530	264,857	−15		
August	1,096,602	778,981	−29		
September	400,576	330,351	−18		
October	353,584	235,242	−33		

TABLE 6.—CITY SALES TAX ALLOCATIONS WITHIN WEBB COUNTY, LAREDO—Continued

	1981	1982	1981–82 percent change	1983	1982–83 percent change
November	1,085,324	638,824	−41		
December	401,107	204,415	−49		
Total	6,884,211	5,998,035	−13		
January–May	2,940,517	3,290,762	12	1,604,679	−51

Source: Comptroller of Public Accounts, computer printout (Austin, May 12, 1983).

Coincident 1982 Unemployment Rates in the Region

Unemployment in Cameron, Hidalgo, and Webb Counties—already high in early 1982 relative to Texas and U.S. rates—increased further following the August 1982 devaluation. The unemployment rates for Cameron, Hidalgo, and Webb Counties were 17.0, 20.5 and 28.9 percent, respectively in March, 1983. Table 7 presents the pre-devaluation and post-devaluation rates for these counties. The percent change in unemployment from July 1982–March 1983 was 35 percent for Cameron County, 23 percent for Hidalgo County, and 89 percent for Webb County. Reports in 1983 indicate continued dramatic increases in the number and percentage of unemployed in the border region.

TABLE 7.—1982 UNEMPLOYMENT RATES FOR THREE TEXAS COUNTIES

County (city)	July pre-devaluation	September post devaluation	March 1983	Percent change
Cameron (Brownsville)	12.6	15.8	17.0	35
Hidalgo (McAllen)	16.7	21.1	20.5	23
Webb (Laredo)	15.3	23.3	28.9	89
Texas	7.3	8.0	8.7	19

Sources: Texas Employment Commission cited in Phillip Diehl, Office of the Comptroller, "The Effects of the Mexican Peso Devaluations on the Texas Economy," Fiscal notes 83, No. 4 (March 1983): 4.
Texas Employment Commission, "Labor Force Estimates for Texas Counties, March Final 1983," (Austin, March 1983).

STATEMENT OF CARLOS VILLARREAL, DIRECTOR OF COMMUNITY DEVELOPMENT AGENCY, CITY OF LAREDO, TEX.

Mr. Carlos Villarreal. Thank you, Congressman. I am here representing the city of Laredo and community development. Let me say we have been carrying out a family care and child care program since 1972. We have had excellent cooperation from the Texas Department of Human Resources.

Right now one of the problems we are facing, of course, is getting the local match. Last week we went to a city council meeting where moneys were made available for us to carry through with these programs for the remainder of the year. Let me just say that we don't have the money at the local level anymore. Let me point out some of the things—that if we happen to stop offering these services, we are going to have 350 elderly patients that will not be getting family care services. We are going to be having countless children in the city of Laredo that will be missing services such as dental exams, speech therapy, et cetera.

Let me say that prior to the peso devaluation the local match and local effort was there. In other words, we were not shunning our responsibility. If we had to meet our responsibility, we were

doing it as far as the city of Laredo was concerned. However, I do have serious doubts whether a city trying to weather Laredo's economic crisis will have the local match next year. The city has just been hit by a bad economic mudslide. There is no doubt about it. So who will suffer? I think it will be the children, their parents, the elderly people of the community who were suffering before, and who are suffering more now than at any other time since the Depression days.

Elderly folks, for instance, that were being assisted minimally by their families now take a backseat to their offspring's own personal survival. We are being swamped with requests for assistance, but we just don't have the resources. Today's economic conditions have had additional impact upon the child development program. The program as you may be aware requires that parents applying for the services must be working a minimum of 15 hours per week for the children to be enrolled. In an economy where one out of three parents are unemployed and have very little chance of getting employment, this is almost a cruel requirement. It translates very quickly into the fact that if you are unfortunate enough to be unemployed, then you are also unfortunate enough to be unable to place your children in the child development program.

Further, since you cannot place your children in a day-care program, then you are further restricted from being able to seek employment. It seems to be a cruel twist of fate. Certainly we can give special consideration for this kind of unusual hardship to look at regulations, which may merely exist to meet a programmatic purpose instead of serving the people in actual need. In order to provide you with an explanation as to how we came up with a situation where our matching ratio is going to be impossible to obtain, I need to report to you concerning the impact of the three peso devaluations since 1982. Let me do this by referring primarily to several economic factors in the city of Laredo.

Since the first peso devaluation of February 1982, the State Comptroller's Office reports that 417 businesses have closed down in 1982 alone.

Mr. HANCE. In Laredo?

Mr. CARLOS VILLARREAL. Yes, sir. An additional 237 businesses have failed in the period January through May 1983. Seventy-six of these have closed in May 1983, a total of 654 businesses. Gentlemen, again, let me just say that this is not political rhetoric. It is harsh reality. Translate this into jobs and sales tax, and it is devastating. The comfortable businesses have now become borderline. the afflicted borderline businesses have become extinct. If these are the circumstances in business circles, how do you think the poor feel after American inflation and Mexican devaluation. Just, you know, unreal.

The city has seen a sharp increase in its rate of unemployment, from a 13.8-rate in February 1982 to a 30.2-unemployment rate reported in March 1983. As you know, these figures reflect the level of unemployment by those people that go seeking employment. So there might be a lot more out there, and I think there are. A lot of them have left town to seek employment opportunities elsewhere, and a lot of people have just given up and don't go to the Texas Employment Commission Office.

The city of Laredo has also felt the impact of two other major economic forces, as evidenced by the fact that the city employees have been cut by almost 200 from the previous year. You are talking of a working force that was before 1,150 and now we have had to drop approximately by 200 employees. A 37-percent drop in sales tax has actually caused a lot of it. See, the city's revenue comes from two major sources. It is not ad valorem tax, which is only 24 percent. Our major source of revenue comes from bridge revenue and sales tax also. If you don't have the bridge crossings because the people are not crossing that bridge to buy, you know, it is affecting the sales tax also. So that equals to unemployment and it means less services for the people of the city of Laredo.

Let me just say this, that we did, and I think we plead guilty to the point that we were relying on international trade. We were gambling and we were being constant winners. But now you know, really, if you put it very frankly, that as gamblers, we are broke. And I am talking about people that are suffering that are not deadbeats that forever would be unemployed or would not accept a job. I am talking about people that before used to pay their car notes on time, and their house payments on time. Now these people are just out of work, and they can't meet those obligations.

We have too much leisure time, if you want to call it that, and it has had a drastic increase in the crime rate in Laredo. As people start getting impatient, they start getting a little bit more belligerent in their behavior. So these are the things I think have had a major impact.

And I would like to make a final point. You talked about enterprise zones at the beginning. We need some drastic measures to be taken on border areas. This brings me to the point that I would like to leave with you this morning. I am pleased to see the interest, Congressman, is here. That you are here to take our testimony. But I am hoping, however, that you are ready to act upon the matter so that assistance that has long been requested by border cities becomes a programmatic solution instead of a bureaucratic problem.

We have heard much talk but very little action. That services for the children, the parents and elderly of our areas increase instead of maintaining the devastating status quo. You must realize we have more kids to feed, more elderly to take care of, with less money available. So these are the things we are hoping will happen. I leave you with a strong sense of hope that you will take every possible action to insure that the city of Laredo and our sister cities along the border are given the special consideration that these times require. I am speaking about swift monetary relief that goes more to foreign countries these days than to our own people, and which regardless how many policy interpretations may help to clarify, I think of, in the end, add up to dollars and cents.

Gentlemen, I think that cities need help. I think people need help. And we just need it fast. I have additional statistical information that I will not bore you with right now, but it will be turned in as part of my testimony.

Thank you, Congressman.

[The prepared statement follows:]

STATEMENT OF CARLOS VILLARREAL, DIRECTOR OF COMMUNITY DEVELOPMENT AGENCY, CITY OF LAREDO, TEX.

Good morning Congressman Hance, Ladies and Gentleman of the panel. My name is Carlos R. Villarreal and I represent the Department of Community Development of the City of Laredo, Texas. I would like to thank Congressman Hance and his staff, and members of this panel for the opportunity to testify before you this morning in hopefully providing additional information for your consideration in reviewing the impact of the peso devaluation and other adverse economic conditions upon the human and social services of our community.

Let me first give you a little bit of background regarding the relationship that the City of Laredo and the Texas Department of Human Resources have had. The City of Laredo has contracted with TDHR to provide child development services and family care services, previously known as Home Chore Services since 1975. Since 1972 under the Model Cities Program, we began serving the elderly of our community up until the point where the Community Development Agency assumed the program in 1975.

Let me preface by saying that as the Director of Community Development, and as a member of this department for over 12 years, I can say to you that we have enjoyed an excellent working relationship with the TDHR from the beginning days of our CD efforts in Laredo.

Regarding the Child Development services which we have been able to provide to the children of low and moderate income parents in Laredo, I can say that we have been very fortunate since 1975 to have received more than $5½ million in State and Federal dollars, and with these funds, we have provided services to an average of 350 children a day since the beginning of the program. We have, through the years, contributed a match of more than ½ million dollars from city funds. Services such as medical, dental exams, vision screening, speech therapy, feeding services, and the development of cognitive learning skills for approximately 5,250 kids would not have been possible without this cooperative effort.

The program under which we serve the elderly, blind and disabled individuals of our community, currently known as Family Care services, is a program which has benefitted approximately 350 elderly daily since 1972. Through the years, we have received at a matching rate averaging 22 percent, a total of almost $3 million. Through these valuable services, we have been able to assist elderly individuals to remain in their homes, helping them to maintain and safeguard their appropriate functioning in their own personal environment. By providing services which include bathing, grooming, toileting, dressing, positioning, ambulation, meal preparation, feeding, laundry, supervising self-administered medication, and general housekeeping and shopping duties, we have been able to ensure that those folks who chose to maintain their home surrounding, can do so.

These two human services programs that the City currently administers, have always received 100 percent support of the City Council, and of their constituency. Prior to the peso devaluation, the local match and the local effort has always been there. After considerable deliberation, scarce CD funds have been earmarked to continue these services through this year. However, I have serious doubts whether a city trying to weather Laredo's economic crisis will have the local match next year. The city has been hit by an economic mudslide.

So who will suffer? It'll be the children, their parents, and the elderly people of our community, who were suffering before and who are suffering more now than at any other time since the depression days. Elderly folks for instance, that were being assisted minimally by their families, now take a back seat to their offspring's own personal survival.

These economic conditions have had an additional impact upon the Child Development Program. The program, as you may be aware, requires that parents applying for these services must be working a minimum of 15 hours per week for the children to be enrolled. In an economy where 1 out of 3 parents are unemployed and have little chance of finding employment, this is an almost cruel requirement. It translates very quickly into the fact that if you are unfortunate enough to be unemployed, then you are also unfortunate enough to be unable to place your children in a child development program. Further, since you cannot place your children in a day care program, then you are further restricted from being able to seek employment. It seems to be a cruel twist of fate, to say the least. Certainly, we can give special consideration at this time of unusual hardship to look harder at these regulations, which may merely exist to meet a programmatic purpose instead of to serve people in need.

In order to provide you with explanation as to how we have come upon a situation where our matching ratio is almost impossible to obtain, I need to report to you concerning the impact of the 3 peso devaluations of 1982. Let me do this be referring primarily to several economic indicators.

Since the first peso devaluation of February 1982, the State Comptroller's Office reports that 417 businesses have closed down in 1982 alone. An additional 237 businesses have failed in the period January through May of 1983 (76 of these in May 1983), a total of 654. Gentlemen, this is not political rhetoric; it is harsh reality. The comfortable businesses are now becoming borderline. The afflicted borderline businesses have become extinct. If these are the circumstances in business circles, how do you think the poor feel after American inflation and Mexican devaluation.

The City of Laredo has also seen a steady increase in its rate of unemployment from a 13.8 percent rate in February of 1982 (first peso devaluation) to a 30.2 percent unemployment rate reported in March of 1983. As you know, these figures reflect the level of unemployment registered by those individuals seeking employment. They do not in fact, measure the number of individuals who have simply lost hope or who have left the city in search of employment opportunities. Again gentleman, this is a rate which represents approximately 1 out of every 3 persons in the City of Laredo being unemployed! And realistically, the figure is much higher.

The City of Laredo has felt the impact of these two major economic forces as evidenced by the fact that at the start of this year, city employees were reduced by 200 from the previous year in order to absorb the fall in revenues caused by a 37 percent drop in sales tax. This 37 percent drop is a comparative figure utilizing the last 6 months of 1982, as compared to the last 6 months of 1981. I might add the sales tax and bridge revenues comprise 36 percent of the city's budget as compared to 23 percent from the ad valorem tax.

This brings me to my final point which I would like to leave with you this morning. I am pleased to see that the interest is here, this morning, in this hall. I am pleased to see that you gentleman are asking for our comments because you recognize that special hardship conditions exist. I am hoping, however, that you are ready to act upon the matter so that the assistance that has long been requested for border cities becomes a programmatic solution instead of a bureaucratic problem. That services for the children, parents and elderly of our areas increase instead of maintaining the devastating status-quo. You must realize we have more hungry kids to feed, more elderly to care for with considerably less money, and most of it from the peso devaluation spinning into a cruel translation of reality for our cities and people.

I leave you with my strong sense of hope that you will take every possible action to ensure that the City of Laredo and its sister cities along the border, are given the special considerations that these times require. I am speaking about measures such as swift monetary relief that now goes more to foreign countries than our own people, and which regardless how many policy interpretations may help to clarify, have to in the end, translate to dollars and cents.

Congressman Hance, again, I thank you for the opportunity to testify before you this morning.

Information of business closures

A. Number of businesses closing in 1982:	
January	24
February	34
March	43
April	19
May	31
June	37
July	46
August	42
September	46
October	48
November	35
December	35
Total	440
B. Number of businesses closing in 1983:	
January	48
February	65
March	24

April	24
May	76
Total	237

Source: State comptroller's (June 7, 1983).

Mr. HANCE. Thank you very much.

Ernie, one quick question for you. How many unemployed workers on the Texan border have exhausted their benefits?

Mr. TULLIS. I don't have that figure right now but we can get it out.

Mr. HANCE. All right.

Mr. TULLIS. We can get it to you.

[The information follows:]

TEXAS EMPLOYMENT COMMISSION

Austin, Texas 78778

JOB SERVICE OF TEXAS

June 14, 1983

The Honorable Kent Hance
1214 Longworth House Office Building
Washington, D. C. 20515

Attention Mr. Jim Rock

Dear Congressman Hance:

At the Ways and Means Subcommittee on Public Assistance and Unemployment Compensation hearing in McAllen, Texas, on June 10, you asked if the Agency had information on the number of unemployment insurance exhaustees in the Valley area. In response to this request, I am attaching a chart which reflects the number of exhaustees for the same counties and for the same period of time reflected in other charts submitted with my testimony.

In addition, I have had our Unemployment Insurance Management Analysis Unit assemble the latest information on exhaustees for the month of May 1983. This information shows the following:

Cameron	1,945
El Paso	3,375
Hidalgo	2,854
Maverick	608
Val Verde	217
Webb	1,853

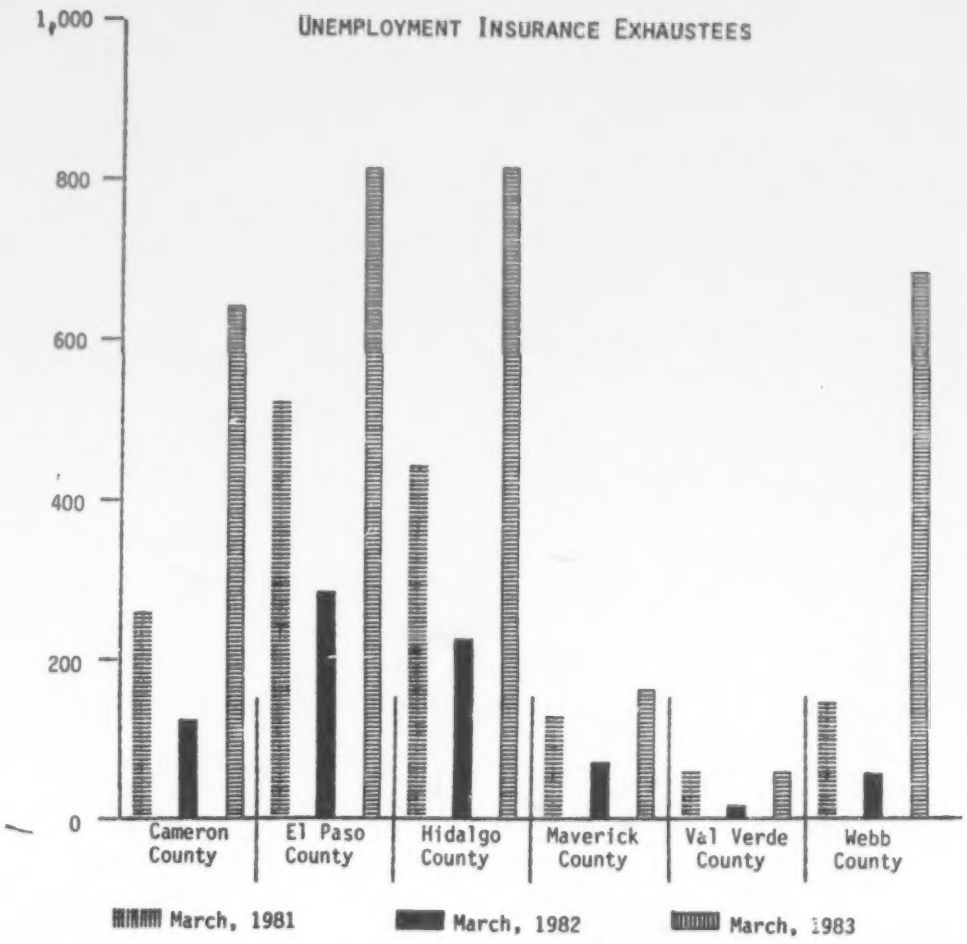
Again, I want to thank you for the invitation to appear and submit testimony for your subcommittee. Affording the Texas Agency this opportunity allowed me to present some facts relative to the unique problems Texas has in administering the Unemployment Insurance Program, and especially to an area such as our border area with its high rates of unemployment. If the Agency can furnish you any additional information, please do not hesitate to call upon us at any time.

Sincerely yours,

Ernie W. Tullis

Ernie W. Tullis
Administrator

Attachment


UNEMPLOYMENT INSURANCE EXHAUSTEES
1,000
800
600
400
200
0
Cameron County
El Paso County
Hidalgo County
Maverick County
Val Verde County
Webb County
March, 1981
March, 1982
March, 1983

Mr. HANCE. How accurate are you with unemployment figures on a county-by-county basis?

Mr. TULLIS. On total; not very good on the totals.

Mr. HANCE. The reason I ask is, as we come back in and try to target some of these areas, for assistance, these pockets of unemployment on the border are hidden in statewide figures because the State is so large. These problems are not reflected in statewide figures, and you are not going to have the trigger points on different programs for States like Texas.

Mr. TULLIS. Yes.

Mr. HANCE. But this area is in as bad or worse shape than other entire States.

Mr. TULLIS. West Virginia has the highest, I think, unemployment rate right now. This Lower Rio Grande area would probably be comparable on the insured rates.

Like I saw in U.S. News or Newsweek, one of the two, they showed an area with high unemployment. They showed Texas, a few areas that were good but didn't pick up Webb County with 28.9 percent. I don't know why it was left out.

Mr. HANCE. Staff counsel is just pointing out that the insured rate in Texas is 2.8 percent.

Mr. TULLIS. Insured rate, right, statewide.

Mr. HANCE. West Virginia, it is 9.16.

Mr. TULLIS. Yes, 9 something. We could run an insured rate for these border area counties, too.

Mr. HANCE. What percent of unemployed individuals in the Texas border area qualify for unemployment benefits?

Mr. TULLIS. Frank, do you have a good idea there?

Mr. SALINAS. The percent of individuals who qualify as eligible claimants in my particular office has been running something like 28 to 30 percent of the applicants coming to the service.

Mr. HANCE. Of the appiicants?

Mr. SALINAS. Yes.

Mr. TULLIS. You will have a lot of them that will not have worked in covered employment, or exhausted the benefits——

Mr. HANCE. Any estimate of how many qualify to apply?

Mr. TULLIS. I don't know. There are probably a lot more that want to apply, you know, that historically—let me put it this way.

Again, it gets back to I think the cultural area down here. They want to work. They are going to try everything they can before they come in and file for claims for unemployment insurance.

A lot of them, even though they qualify, will not come unless they are just absolutely desperate, so that I think statewide about 27 percent of those applicants who come into our offices looking for work, only about 27 actually file for unemployment, even though they are qualified to file.

I think you will see that percentage substantially increase in recent, probably most, and next year, that we will start getting a much higher number of applicants in our offices who will actually be filing claims because of the economic situation in the area.

Mr. HANCE. With experience rating, it is obvious a lot of the businesses in this area will have to cut back on employees, who will start getting benefits. Therefore, their unemployment tax rates will go up.

What kind of jump has there been in that?

Mr. TULLIS. Well, the legislature has just recently passed a new way they are going to tax employers in Texas. I don't know if the Governor is going to sign it.

But the insurance rate can go up to 9 percent. Several years ago it was 4 percent maximum. The Federal rate went up, maximum of 6, and Texas changed their rate to go up to an experience rate of 6.

With the new line, if it is signed into effect, the employers will go up to 9 percent. That can have an adverse effect on an employer putting—trying to recover from a situation.

We looked at one particular employer that had a potential layoff because of the relation to the situation where in 1982, he was running about an 8- to 10-percent rate. He is running a 3.5-percent rate now, but under the new law in 1985, he will go to about 8.9 percent. That means his tax bill would go from about $290,000 for 1982 to, by 1985, about $3.7 million on the same number of employees.

Mr. HANCE. So he gets a double shot?

Mr. TULLIS. He gets a double shot.

Mr. HANCE. His retail sales are down, he lays his people off, his rate goes up as a result, so he gets hit both ways.

Mr. TULLIS. Yes.

Mr. ZARAGOZA. That is right.

Mr. TULLIS. When he tries to recover or come back on, he cannot put as many people back on. It is interesting to note that our taxable wage base for the first quarter 1982, when you had the $6,000, the total for that first quarter was 17.1. That usually generates 42 percent of our income and represents about 42 percent of what is going to be the tax wage base.

The first quarter of 1983, we recently estimated it would be higher because you are now going to tax 7,000 instead of 6,000, but the first quarter completed is 17.4 million, so we only had an increase out of the whole $1,000 increase in base.

So there has been a substantial loss to that taxable wage base out there.

Mr. BOWLER. Is that statewide?

Mr. TULLIS. Statewide.

Mr. HANCE. Let me jump around a little because we are running late.

Manuel, in 1981, Congress made the changes on the AFDC laws and cut benefits for individuals with other income that exceeds 150 percent of the State standard of need. It seems to me that this change has been especially harsh on Texas because the State standard of need established by the legislature is $168 a month for a family of three.

Has this caused problems for AFDC beneficiaries in Texas?

Also, the 1981 changes made it more difficult for some people to get AFDC or food stamps. What has happened to the people that have lost their benefits? Have they been able to get a job? Or are they just cut from their benefits?

Mr. ARREDONDO. You are talking about people who come to us?

Mr. HANCE. Right.

Mr. ARREDONDO. During that time, yes, we had. Because of the regulations, we did drop people from the rolls. As far as what happened to them, I honestly cannot say.

Mr. HANCE. Also, you said earlier in your testimony that it seemed that your increases in food stamps, AFDC, and other programs would have been a lot greater had there not been the changes in 1981.

Do you think it would have been 20 percent more, 30 percent more?

Mr. ARREDONDO. About 30 percent more, I would say.

Mr. HANCE. Thank you.

Mr. ARREDONDO. I think that the effect of the cuts, they have been about 30 percent, Mr. Congressman.

Mr. HANCE. OK. Do you all have any questions? I have written questions down as I go along. I have always had problems reading my notes.

Mr. TULLIS. On final payments, statewide total, January 1983, were 20,000; February, 21,488; and in March, 25,452. So that number, the final payments being made each month, is going up slowly, increasing.

Mr. HANCE. Mr. Villarreal, when you were talking about city matching funds, how much money were you talking about the city providing?

And then how much money would you lose when you couldn't provide the match?

Mr. CARLOS VILLARREAL. I would say, Congressman, that the city matches approximately $200,000 a year of the total. The total, you know, program, is about $1.6 million. So we would be losing out on 1.6 million, and that is our major concern because we are having more people going into our offices requesting assistance.

Congressman, I want to make one statement, also. It would be possible, in making the final report, that we have problems in applying to Federal agencies such as EDA, as mentioned before. They seem to make a list of priority projects that will or will not be funded.

They might say, "Well, you know, special events or tourist centers are not on our priority list." But it just might be what we need in Laredo. Instead of looking to international trade and retail sales, we have got to look to tourism.

I can't realize how somebody can make a decision in Washington for somebody here on the border as to what we can do to better our situation. To Duluth, Minn., it might not be the solution, but to Laredo, we are having to utilize the mirror effect. If we can't move it coming this way, we are going to have to move it the other way—simple as that. We can't play dead. But we don't need any additional obstacles or redtape to keep us from accomplishing that.

Mr. HANCE. What would you say is the reason that Laredo has been hit harder than the other areas?

Mr. CARLOS VILLARREAL. I would say the number of businesses we have in Laredo that catered to that type of wholesale trade, and having the proximity just right across the border. Here in McAllen, you might have to travel 9 miles away from that international bridge. In Laredo, we are right across it.

We have a higher number of businesses there in Laredo that of course have been directly affected and you are right down the pipeline, which is easier to get to as far as transportation from the

major population centers in Mexico. So that spells doom for Laredo.

What was an ideal situation now turns it into a bad one.

Mr. ZARAGOZA. It is a major crossing in Laredo. McAllen is not considered a major crossing.

Mr. HANCE. Did you find those figures?

Mr. ZARAGOZA. Yes, sir. There are two reasons, I think. Part of it is the migrant and seasonal farmworkers leaving the area, in the summer months especially. And the other is what we kindly call the snowbirds. That is the winter visitors that come to the valley to spend the winter. That helps then.

Mr. TULLIS. That is part of it. The winter visitors come in, when they are getting ready or either coming in, making purchases, to get ready to go back, this type of thing, Christmas, the Christmas shoppers.

Mr. HANCE. That still doesn't add up. I think you are going to find, if you will check far enough with the comptroller's office, that there must be some type of tax that comes in quarterly. It just seems like there is some consistency here.

Mr. ZARAGOZA. We will check it out and let Jim know.

Mr. HANCE. Thank you very much for coming.

At this time, I would like for our next panel to come up: Amancio Chapa, Herman Gonzalez, Aida Gonzalez, and Juan Cantu.

Are all four of you here? If you have a statement prepared, be sure and give us a copy.

STATEMENT OF AMANCIO CHAPA, EXECUTIVE DIRECTOR, AMIGOS DEL VALLE, INC., McALLEN, TEX.

Mr. CHAPA. Thank you, Mr. Chairman.

Mr. HANCE. Let me go ahead and start with you three. We have one witness who evidently is not able to make it.

As I call on you, why don't you tell us a little about who you represent and go ahead with your statement.

Mr. Chapa.

Mr. CHAPA. I am executive director of Amigos Del Valle, a private, nonprofit corporation established on behalf of the elderly population of the Lower Rio Grande Valley in Cameron and Hidalgo and Willacy Counties.

Our board is composed exclusively of elected officials. We have representatives of the three counties and, in addition, 12 other municipal entities that sit on our board of directors.

We are currently serving between 3,200, 3,500 senior citizens per day, basically providing nutritional services, transportation, recreational, social interaction.

Congressman, in preparing our statement, and it is a brief one, and it is not very technical, in checking with my staff, we would have to say that the effect of the peso devaluation on our particular program and our clientele right now, I think, has been more in an indirect nature. And that is one of the situations we are currently monitoring. I think you are very much aware of, perhaps, the depressed economic activity that exists right now in the Rio Grande Valley.

One of the things we are beginning to find out is that the adult children of our participants, for example, who in most instances attempt to provide for their parents who are over 60 years old, are now finding themselves in very tough financial situations, with more and more people being unemployed.

What we are trying to look at is what this effect is having on our participants. We would probably recognize the fact that the adult children of our elderly who are now having to set a priority of their family unit first, not totally cutting off, let's say, their elderly parents, but certainly, when there is less resources to go around for the family unit, it has to have an effect on the senior citizen population.

Another effect that we are beginning to sense and feel, and that is, as I pointed out, one of the things that has helped our program immensely, is that we get a lot of participation from local government, cities and counties, in dues that they pay, buildings that they make available for senior citizen centers, and rents, picking up utility costs at some of these centers.

We are beginning to sense now that the cities are looking at their budgets, especially those cities that have been adversely impacted by the peso devaluation, with a decline in their sales tax revenue, with a decline, for example, in construction, just a general decline in their overall tax revenues, that they are really having to look at their budgets, and I think balance out and analyze their outlay for social services to other organizations and also to our agency.

This is now coming across as, well we cities may be able, for example, to continue paying dues, but we better take a closer look at our ability to continue to contribute paying utilities at the centers. We have not experienced any cutoffs.

But in my discussions with some of the city managers and certainly some of the members that sit on our board, these budgetary considerations are something they are looking at very closely. And here again——

Mr. HANCE. What percent of your budget comes from Federal funds?

Mr. CHAPA. I would say it is about 70 percent; the rest is local.

Mr. HANCE. State, local, and private donations?

Mr. CHAPA. Right.

The other thing is, we have always had a tradition of raising local moneys, either through fundraising activities or approaching members of private enterprise and local government. But with the effect, I think, of the peso devaluation on the general economy, as this situation worsens, as unemployment goes up, we have seen that there is a greater need for social services.

Also, with this trend, the call went out from the Federal Government saying, in essense, that agencies like ours need to look more toward the private sector and local government sector to pick up the slack in the social service area, what we have found is that it does become more difficult when you are talking about an expansion of social services and you are talking to a city that is experiencing a reduction in its revenues, and you are trying to approach the private business sector to get them to contribute and they are

experiencing a decline in profits. So these are the effects that our agency is feeling.

As I say, right now we are just monitoring the situation. We don't have any hard data on it. But our 29 centers throughout the three counties have been served notice that they have got to be on the lookout for the effects of—well, of, I guess, the depressed economy. That basically is what our paper addresses.

Mr. HANCE. Thank you very much.

[The prepared statement follows:]

STATEMENT OF AMIGOS DEL VALLE, INC., PRESENTED BY AMANCIO CHAPA

Amigos Del Valle, Inc., is a private non-profit corporation dedicated to serve and to advocate on behalf of the elderly population of the Lower Rio Grande Valley of South Texas which encompasses the three counties of Cameron, Hidalgo, and Willacy. Amigos Del Valle serves approximatley 3,200 Senior citizens on a daily basis out of its 29 Centers. Transportation, meals, social recreational activities, counseling, and social service are on-going functions at these Centers. In addition, Amigos Del Valle now provides safe, decent, and affordable housing via its two HUD 202/ Section 8 Housing Projects—Casa De Amigos No. 1 (100 apartments) in Brownsville, Texas and Casa De Amigos No. 2 (72 apartments) in McAllen, Texas. This is all made possible by Federal, state and local government assistance and Amigos Del Valle's local fund raising efforts.

How has the "peso devaluation" affected our program? The impact of this economic crisis has been more of an indirect nature. Furthermore, at this point, Amigos Del Valle has not yet conducted a substantial analysis of the depth of the impact. However, some ripple effects are being felt and the potential for further adverse effects seems more real each day. Essentially, Amigos Del Valle is experiencing and/or noting the effects in three areas: (1) the inability of local governments to meet the added local need resulting from Federal cut-backs; (2) the decrease in generated revenues from local fund raising; and (3) the drying-up of supplemental financial resources from other service agencies and the elderly's adult children.

Amigos Del Valle, as well as other social service providers, are being forced to rely more and more in local government and private support. On the other hand, local government and private enterprise are being requested to pick up the slack in social services deleted by the Federal government. It is ludicrous to expect the valley cities and business people to increase their assistance to social service in a period of time when their own revenue and profits have been steadily declining since the Peso Devaluation. The irony of the matter is that as the general economic situation worsens in our area, the demand for social service increases.

Amigos Del Valle has been fortunate to receive city and county government assistance in the form of rental and utility payments and/or exemptions for some of the Centers. However, the decline in sales tax revenue has made it much more difficult for these entities to just maintain their present level of support—to increase such support would be almost impossible.

As the local economic situation worsens because of the peso's devaluation the demand, need, and cost of social services increases. Where then, do agencies like Amigos Del Valle turn to address this dilema? In the past we looked to Washington, D.C. for the resources. But now in times of austerity and decreased emphasis on social needs, the social service provider is told to obtain the help of local government and private business. It appears then, that if the local economy does not better itself, Amigos Del Valle and other social service organizations will be forced to experience what one government representative once said, "That the ideal situation is a pay as you go system, if you can't raise the money locally to meet the increased need, you'll just have to do with less or without."

Amigos Del Valle has vigorously implemented local fund raising efforts. One such effort is the bingo activity which generates most of the local monies to supplement and expand the programs. The bingos are held in McAllen, Texas, and a great number of bingo players were from Mexico until the peso fall-out. Amigos Del Valle's bingo experienced a 30 percent drop in participation. In this case, the peso situation had a direct impact on the financial stability of Amigos Del Valle and its elderly clientele.

The majority of Amigos Del Valle's elderly participants subsist on a fixed income, if any. Then elderly individuals heavily rely on the assistance from local charity groups and on cash provided to them by their adult children. Charities tend to be

less successful in times of high unemployment. This, of course, is a major national economic problem, but in the Lower Valley unemployment is even worse as a result of the peso devaluation. As such, charity resources are and will continue to be more scarce.

Many of the adult family members of the senior citizens are now underemployed or unemployed. The financial hardship is bad enough on them. How can they help their parents and grandparents now?

In view of the dire circumstances, Amigos Del Valle would request Congress to take definitive action to address the current economic problems besetting the Lower Rio Grande Valley. A full employment economy can only serve to decrease the needs for social services and to increase local government and business' support for the "truly needy"—the Senior Citizen population.

STATEMENT OF MARTIN VILLARREAL, COLONIAS DEL VALLE, INC.

Mr. MARTIN VILLARREAL. Congressman, Mrs. Gonzalez was not able to make it. We have a statewide conference right now. Another thing, I must apologize, I was home recuperating from the flu and the boss says "go out there and get this done." So here I am.

Mr. HANCE. Just don't get too close if you are still contagious.

Mr. MARTIN VILLARREAL. Our agency is a nonprofit organization. We are funded—presently we still have some funds from the Federal Government, HHS, though we are now going to be funded from the Texas Department of Community Affairs.

We deal primarily with the needs of the migrant and seasonal farmworkers in the area.

Mr. HANCE. What is your annual budget?

Mr. MARTIN VILLARREAL. Right now, I think we are running close to $1 million.

Mr. HANCE. About what percent of this funding is from the Federal Government?

Mr. MARTIN VILLARREAL. Those figures, again, I am not too sure on. But I think it was 100 percent on the transition money.

The services we are providing right now and have been for the past several years have included projects such as TECI, which is energy intervention assistance to the migrant seasonal farmworker. This is primarily to help them with overdue payments on their utility bills which are the basic people need to run them, I guess.

Lately, because I really do not know whether I can attribute it to the devaluation or not, but we have had an increase in the amount of people seeking assistance at our agency, names we had not recorded before. We have had a substantial increase in the amount of people that are asking for assistance in employment.

In briefly reading the paper submitted by Mr. Tullis, the TEC administrator, I would like to address one point where he states that through several reasons, one being Judge Richey's decision, the TEC has now had a decrease in the amount of people looking for work at their offices.

For some reason, I feel there is something here that has not been pointed out. I really cannot point my finger at it. But we have had a substantial amount of people coming into our agency looking for services.

Mr. HANCE. On a monthly basis?

Mr. MARTIN VILLARREAL. Yes, sir.

Mr. HANCE. I am going to have to step out in just a second. But I want you to go ahead with your testimony.

One question I wanted to visit with you about when I came back is the PIK program, the agricultural program, and how that has affected agricultural employment. So I want you to touch on that in a minute.

But go ahead.

Mr. MARTIN VILLARREAL. We have only so much money allotted for us. Due to the increased amount of people seeking assistance from us, we are working our staff twice as hard.

It has become very difficult for us to determine who qualifies and who doesn't because of the criteria we now have set for people who are migrant and seasonal workers. Now, with all these people coming over, we are trying to abide by the rules that we have. Yet, it is hard to deny service to someone when you know they are in need. So this has also created some problems for our staff.

The administrator says in a statement that the agricultural workers must now resort to freewheeling where no one has any real planning or protection. I was just wondering if there is any documentation as to what kind of employment they have now resorted to. We would like to know so we can pitch in and help with them again, because we are getting a lot of people coming to us.

I agree, or we agree, as far as some of the reasons stated, why the decrease in people applying for agricultural employment, such as, I noted in the gentleman's—such as herbicide utilization, chemical, change in crops, increased mechanization, and rapid urbanization. But I think maybe the decline in people requesting assistance from TEC might be due to other things.

One is that there have been some changes, not only locally, but up North in the amount of crops being grown presently. I think that people, in order to survive, have to look for other means of employment or survival, something that should be addressed more in detail.

We would like to know, since we work with seasonal and migrant farmworkers. We have had a lot of people coming over in the last 3 weeks that have gone up North and are asking us questions as to how is it going to be up North. Are we going to be hurting? Are they growing more crops? It is information we do not have right now.

Other than that, that is about all we have.

STATEMENT OF JUAN CANTU, PLANNER, COMMUNITY ACTION COUNCIL OF SOUTH TEXAS, RIO GRANDE CITY, TEX.

Mr. CANTU. Yes, sir, Mr. Chairman. I am Juan M. Cantu, planner for the Community Action Council of South Texas [CACST], a recognized community action agency chartered as a nonprofit corporation under the laws of the State of Texas, incorporated on April 6, 1965.

Presently, our agency is involved in human services delivery in Duval, Jim Hogg, Starr, and Zapata Counties. We have administered a number of programs—consumer, youth, migrant and seasonal farmer needs, youth, health, nutrition, emergency assistance—you name it.

As I said, our agency is involved in human services delivery. Today, the agency is appearing before this subcommittee to try and give you a perspective of just how it is our people in our area are coping with the border economy and peso devaluation.

Our service area, with a population of 53,585 people, has historically lagged behind the State's other areas in economic activity. Starr County, Tex., is a prime example of this trend.

Many people say that today's depressed border economy has had no effect on the people we serve, since they have always been affected by the chronic effects of poverty and a poor economy. To many experts, poverty is poverty, hunger is hunger, need is need.

There has been a failure to realize that the people that live on the border, especially the people in our area, have been devastated, not only by the state of our Nation's economy, but they have also been faced with a regional crisis, which in effect is really a part of an international economic problem which is affecting many, many nations.

As a result, the area's population is, in essence, contending with an economic situation of greater magnitude which, if left unchecked, could potentially breed activity capable of destroying the resiliency of our people and undermine their stock in our system of economics.

As a provider of human services, the CACST has seen firsthand how the border economy and the peso devaluation has escalated the degree of poverty and need in the people we serve. The only reason that the people in our areas have not reacted and demanded action, as the people up in the industrialized areas of the North, is because of the permanence of poverty we have had historically and because of the poorer conditions which they see, across the border.

But you know we have seen some changes in the users of our programs, especially in the areas of unemployment. As I mentioned previously, unemployment has always been high in our areas.

For example, in Starr County, Tex., the Texas Employment Commission reported that unemployment in Starr County peaked in January 1983 at 49.9 percent. Historically, every year during harvest seasons and during summer, employment has decreased because of the migrants leaving.

This year, in April, we showed a decrease of 47.6 percent. However, this was not the fact just 12 months ago. Back in April 1982, unemployment had dipped from a January high to a low of 24.3. The migrants have left, yet unemployment has remained higher.

This we can attribute to the effects of the devaluation. We can no longer say the bulk of the unemployed in Starr County are the temporary or migrant workers. But now more and more of these numbers are the recently disenfranchised because of the recent peso devaluation and effects it has had on local businesses.

In the past, the council was only seen as a provider of services. We were there to provide human services, and the people went to us for these needs. Yet, more and more people are also coming down to our agency to see if we can provide them with a job.

Last year, an average of nine persons per month came in and applied for a job seeking to help us to deliver our services. In checking our records for the month of May, 36 applications were requested and turned in for employment. So we can see that the private

sector has not been able to meet the need that our people have there.

If for no other reason than to insure the jobs of the 150-plus work force that the community council has, this is more than adequate reason that we should try to increase the level of funding of these well-utilized public assistance programs that have been targeted for our area.

The demand that our agency has seen for services is something which we have never seen in our 16 years, historically. Some examples of what our programs are being faced with are such as our title XX Meals on Wheels program. This year we are overspending year-to-date projections. We have had to do this to at least try and cope with the demand we have had. But this is not possible.

Since its inception, we have always had a waiting list of elderly who have wanted to be on the program, but because of budget limitations and now budget cutbacks, we have not been able to meet them. But in the last 9 months, our waiting lists have increased by about 35 percent.

We had, on an average, about 225 to 250 people waiting to get on this Meals on Wheels program. During the last 9 months, I would say an extra 85 or 90 people have requested to be put on the program. But moneys are not available.

These increases have been attributed to families referring their homebound elderly for assistance in order to try and alleviate their personal economic situation. But, also, a surprising number of referrals have come from the elderly themselves. They realize that they are a burden to their families and they want to do whatever is possible to help out.

Other programs experiencing overruns in expenditures include the medical transportation program. With 8 months left in the program year, we are overextending that by 13.2 percent. Nutrition for the elderly has overspent 7 percent as a result of exceeding quotas. Energy crisis assistance, 34.6 percent, even though participation was strictly prioritized. Emergency food assistance, totally exhausted, with 7 months to go in the year.

Other areas in the CACST which have seen increased demand for services are health and nutrition. The agency's rural health clinics, which 2 years ago were generating approximately 68 percent of their total expenditures, have seen a dramatic drop in fee generation. Fee generation is expected to cover only 30 percent of the total expenditures this year.

As a result, we will have to depend more on Federal aid to be able to meet our needs.

One thing we were hoping for this year was that the title XX contract with our agency included a new twist, the inclusion of a copayment policy where we could ask participants to pay a share for their services. We, in turn, could come back and use these moneys to provide additional services.

What is happening is that more and more participants are asking that the copay policy be waived because they cannot do it. Rather than turn them down, we are having to do it.

The supplemental food program—we have seen our caseload has increased substantially. Our waiting lists are growing longer and

the clients we are having to turn down because they do not qualify incomewise has practically diminished.

Morale is low at the CACST. People are being turned away daily with many of their needs unmet. Budget cuts to programs essential to a viable human service delivery system could not have come at a worse time. Our elderly go hungry, transportation is not accessible, utilities are being shut off, families are finding their pantries empty.

It is imperative that Congress and this administration take a close look at the state of our people and our region. A crisis is at hand. Hunger, desperation, and loss of self-dignity are dangerous elements in any society.

Mr. HANCE. Thank you.

[The prepared statement follows:]

STATEMENT OF JUAN M. CANTU, PLANNER, COMMUNITY ACTION COUNCIL OF SOUTH TEXAS

Honorable congressmen, distinguished members of the House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation, I am Juan M. Cantu, planner for the Community Action Council of South Texas (CACST), a recognized Community Action Agency chartered as a non-profit corporation under the laws of the State of Texas, incorporated on April 6, 1965. Presently, our agency is involved in human services delivery in Duval, Jim Hogg, Starr, and Zapata Counties. Our track record includes programs in the following areas: Administration, agriculture, child development, consumer education, economic development, elderly, employment, energy, health, health education, housing, information and referral, migrant/seasonal farmworkers, nutrition, public works, transportation, weatherization, and youth.

Today, the CACST appears before this subcommittee to give its perspective on the state of the people it serves as a result of the border economy and the peso devaluation. CACST's service area, with a population of 53,585 people has historically lagged behind the State's other areas in economic activity. Starr County, Texas is a prime example of this trend. Many people say that today's depressed border economy has had no effect on the people we serve since they have always been affected by the chronic effects of poverty and a poor economy. To many experts, poverty is poverty, hunger is hunger, need is need. There has been a failure to realize that the people on the Texas-Mexico border have been devastated, not only by the state of our Nation's economy, but also by a regional crisis which in effect is but a part of an international economic dilemma affecting diverse nations worldwide. As a result, the area's population is in essence contending with an economic situation of greater magnitude which if left unchecked could potentially breed activity capable of destroying the resiliency of our people and undermine their stock in our system of economics.

As a provider of human services, the CACST has seen first-hand how the border economy and the peso devaluation has escalated the degree of poverty and need in the people we serve. It is only because of the permanence of poverty and need in the area and the depressingly worse conditions in neighboring Mexican communities that our population has not reacted and demanded action as have the recently affected population groups of the industrialized north which are newcomers to the unemployment and public assistance lines.

Let us examine what changes the CACST has seen in its user population and the demands placed on its service programs. Unemployment has always been high in our area, especially Starr County. The area being homebase for thousands of migrant workers compounds the unemployment situation during the winter months. However, historically, unemployment rates have dropped during spring harvest seasons and on through the summer. According to the Texas Employment Commission, unemployment in Starr County peaked at 49.9 percent in January. Preliminary figures for April, 1983 show a decrease to 47.6 percent. However, just 12 months prior to this date in April, 1982, unemployment had dipped from a comparable high in January to a low of 24.3 percent. We must note that the effects of the first devaluation (mid-February) had not yet noticeably materialized in the employment market. Businesses and industry were banking on short-term effects. However, as the months progressed and the economy worsened, unemployment crept up, the

result being employee layoffs and adjusted work schedules. Our community must now brace itself for September and October of this year when the migrant population returns. A turnaround in the economy is not seen around the corner, and a visit to the deserted communities with high migrant populations is but the calm before the onslaught of a storm of human needs.

Starr County's unemployed are no longer only a bulk of temporally employed workers (migrants) but now also include recently disenfrenchised, previously full-time employed individuals affected by the ramifications of the peso devaluation.

More and more, the CACST is not only being looked on as a deliverer of human services, but also as an employment source. Last year, an average of 9 applications for employment were requested monthly, last month (May 1983), 36 applications were requested and turned in. This is clearly an indication of the inability of the private sector to provide adequate employment. If for no other reason than to insure continued employment of CACST's 150-plus work force and thus not add an additional burden to the private sector, we must strive to increase the level of Federal support of well utilized public assistance programs targetted for our area.

The CACST has seen a demand for services unlike any other period of time in the agency's history. This has resulted in many of our programs having to overexpend year-to-date projections to serve more people, in some cases not even being able to meet demand. Such has been the case with our title XX meals on wheels program which at this time has overspent it's year-to-date projections. Since the program's inception, a waiting list has existed for services, but in the last nine months, requests for meals for the homebound elderly have increased by approximately 35 percent. This increase has been attributed to family referring invalid or homebound parents or relatives to the program to ease family budgets affected by layoffs or shift reductions. A surprisingly high number of self-referrals have been received from elderly themselves, requesting assistance in an effort to be less of a burden on the family as they grow old. Other programs experiencing over-expenditures include: medical transportation (13.2 percent with 8 months left in the program year), nutrition for the elderly (7 percent as a result of exceeding feeding quota), energy crisis assistance (34.6 percent even though participation was strictly prioritized), emergency food assistance (totally exhausted with 7 months to go in the year).

Other areas in the CACST which have seen increased demand for services are health and nutrition. The agency's rural health clinics which 2 years ago were generating approximately 68 percent of their total expenditures have seen a dramatic drop in fee generation. Fee generation is expected to cover only 30 percent of the total expenditures this year. This year's contract with the State for title XX family planning services was seen as a possible source of additional revenue with the inclusion of the co-pay policy, however, more and more participants are requesting waivers being unable to come up with the co-pay amount. The agency's WIC program has seen its caseload increase substantially, its waiting lists grow considerably longer, and less clients turned down because they did not qualify income wise.

Morale is low at the CACST. People are being turned away daily with many of their needs unmet. Budget cuts to programs essential to a viable human service delivery system could not have come at a worse time. Our elderly go hungary, transportation is not accessible, utilities are being shut-off, families are finding their pantrys empty.

It is imperative that Congress and this administration take a close look at the state of our people and our region. A crisis is at hand. Hunger, desperation, and loss of self-dignity are dangerous elements in any society.

Mr. HANCE. Let me ask you one question. What is the size of your budget approximately?

Mr. CANTU. This year's total budget is running about $3.5 million, across the board.

Mr. HANCE. How much is Federal?

Mr. CANTU. About $2.7 million is Federal, the balance being State funds.

Mr. HANCE. Talking about your rural health program, you have had a cutback from 68 percent to 30 percent because they are not making as much money?

Mr. CANTU. Yes, sir.

Mr. HANCE. Then you get more of them.

Mr. CANTU. Yes, sir.

Mr. HANCE. So you get hit both ways.

Mr. CANTU. That is correct.

Mr. HANCE. What do you do?

Mr. CANTU. We are having to cut back on basically what we are now considering nonessential services, like being able to provide these people with moneys to see specialists and stuff like that, dealing strictly with primary case, things we can take care of at the clinic to be able to stretch those dollars a little further.

Mr. HANCE. What title XX funds do you all use?

Mr. CANTU. At the present time we fund our family planning activities, day care activities and elderly feeding, home bound, Meals on Wheels.

Mr. HANCE. Did you have to reduce your services after 1981, or did you stay pretty constant?

Mr. CANTU. We had projected we were going to increase day care activities in the area, but we will not be able to. The family planning moneys will be reduced, and I am not sure what the status is on our other funded activities.

Mr. HANCE. Let me call on some of the other members of the panel up here to ask any questions that they might have.

I was going to ask one of you about the PIK program and the migrant workers. Many farmers have signed up in the PIK program, which means they will take out of production as much as 50 percent of their land. What has happened as far as agricultural workers are concerned? Has the PIK program cut down even more on the number of agricultural workers?

Mr. MARTIN VILLARREAL. I really can't answer that. I think Mrs. Gonzalez will be able to answer that.

Mr. HANCE. Maybe the business panel later on will be able to touch on that and know the amount.

I don't know what the participation has been of the PIK program down here, but it just seems like if there has been much participation at all, that you would have additional layoffs.

Mr. JENSEN. During the last year, there was an increase of title XX funds at the national level. Have you, through the emergency jobs bill, did you receive additional funds in your agency because of the additional $14 million that came to Texas as under title XX?

Mr. CANTU. At the present time, we have three applications with different State agencies for supplemental funds in order to try and meet the additional needs we have been faced with, but there has been no official response yet as to those applications—whether those applications will be considered fundable or not.

Mr. JENSEN. What has been your priorities as far as using title XX funds in these times of increasing unemployment?

Mr. CANTU. We are basically concentrating on increasing health services and services to the elderly. Those were the two areas we have targeted.

Mr. JENSEN. Those are your applications submitted?

Mr. CANTU. Yes.

Mr. HANCE. OK. Thank you very much. We appreciate you being here and appreciate your testimony.

At this time, I would call our third panel. This is a business group: Joe Aleman, Jan Klinck, Ruben Garcia, and Jack Cawood.

I was running two panels together in my haste. If Mr. Garcia comes in later, we will add him with the next group.

Joe, we will let you lead off.

I think we just picked up another witness—Ruben Garcia. Ruben, I apologize. I moved you into the 10:30 group without telling you.

Mr. GARCIA. I am glad I got here a half hour earlier.

STATEMENT OF JOE ALEMAN, ALEMAN SUBARU VOLKSWAGEN, McALLEN, TEX.

Mr. ALEMAN. Congressman, thank you for coming to McAllen, Hidaldo County, Tex., and allowing our community leaders the opportunity to input our problems, social sufferings, unemployment, business failures caused by the peso devaluation.

Since September 1, 1982, the McAllen metroplex area has had approximately 148 retail stores close their doors. An estimated 4,550 retail jobs have been lost, and a very black future is projected.

Our retail stores have lost from 50 to 90 percent of their business. The stores that remain opened have reduced their employee staff to 20 percent of what they had. This has been a major cause of unemployment and will have a double effect on the business community when the unemployment rates are adjusted and charged back to the retailers.

Our mall retailers are having tremendous pressures keeping up with their leases; they cannot pay their rent. The downtown area has already lost 12 stores and more are projected to close out their business.

The hardships of the retailers is reflected on the fact that there has been a 30-percent increase in delinquency taxes. This includes city and county taxes; they are unable to pay their taxes for 1982.

Our local SBA reports as follows: Since September 1982, they have had over 900 loan inquiries; 224 loans have been processed for a total of $17.5 million. These loans are averaging a horrible rate of 14.5 percent.

On their deferral program, they have deferred 436 loans for a total of $3.2 million of outstanding balances. Their delinquency ratio on all their business loans is now up to a 10.5-percent figure.

SBA has had to purchase over $3 million from the local banks on their guarantee loan programs.

Our suggestions and solutions in regards to SBA: One, needs more personnel to handle the tremendous pressures of inquiries and loan applications that this disaster has created.

SBA should be allowed to make more direct loans at lower rates. As of now, its rates are way over prime and most merchants are unable to pay such high rates.

SBA needs to continue their management seminars. We have found this to be very effective as our retailers make their marketing adjustments.

Government loans, geared or processed through our local banking institutions, to help our merchants apply for long-term, low-interest loans.

We need Congress to approve the enterprise zone bill now pending in the Ways and Means Committee. This will help our community by attracting industry to our area.

Gentlemen, we have no illusions that Mexico's financial problems will be solved in the next 3 or 5 years, and that we on the local level will solve Mexico's problem. Nevertheless, we are part of the United States and we have a disaster on our hands. Socially, economically, this area is suffering and our retailers need help—not 2 years from now, but right now.

When the retail business suffers such a tremendous economic blow as this area has suffered, the effects are felt all the way down, from unemployment to manufacturing.

The area merchants are in the process of changing directions in their marketing, making changes for survival, and with the help that our Government can give us, we will survive.

Thank you very much.

Mr. HANCE. Thank you, Joe.

I have some questions I will come back to in a minute, but if we could go ahead with Mr. Garcia, I would like to at this time.

STATEMENT OF RUBEN GARCIA, MODERN MACHINE SHOP, INC., MODERN CONSTRUCTION CO., INC., AND MODERN FARM CO., INC., LAREDO, TEX.

Mr. GARCIA. Thank you very much for allowing us to speak here today.

Laredo by a long shot is in the same situation as I am sure all the rest of the border. Laredo has I guess been more critically hit in that dependency on imports and exports was the number one industry of the city, retail business being the second.

We have a 100,000 population right now, Congressman. Out of that, we have a 43,000 percent work force. As of April 30, we have a 27.4 unemployment rate. Even prior to August 1982, Laredo has had a high unemployment rate.

There has also been double-digit unemployment, twice the national average. In January 1982, we had an unemployment of 11 percent. In February it went up to 13.1. That was June 1. That was during the first devaluation.

In August when the second devaluation came about, it rose to 13.5. By the end of 1982, it was 23.5. In April of this year, as I reported before, it is 27.4. These unemployment figures do not include those persons that are working part-time.

Claimants affected in August 1982 exhausted their benefits March 15, 1983, but went into extended benefits. By the end of April 1983, 1,822 persons have lost all of their compensation.

During the next few months, this number will increase. There will be in the near future 12,000 persons without unemployment assistance. Right now, Texas Employment Commission is servicing about 100 people a day, and that continues to climb.

In the construction industry, from the records of the city of Laredo, in 1981 there were 2,185 permits for a total construction cost of $71,496,248. In December 1982, there were 2,069 permits for a total construction cost of $45,322,715.

As of May this year, they have issued only 777 permits for a total construction of $9,034,094. The May figure, which represents a decrease of 66 permits, $12,176,627 in construction costs, brings down the rate between 1982 and 1983 by 53 percent.

Our company, which is a construction company, had employed in January 1982, 91; as of May of this year, there are 50. Our employees are now working, about 75 percent work on a 40-hour basis. Twenty-five percent work 32 to 36 hours.

We are continuing to do business outside of Laredo to maintain a reasonable workload, though when we work outside of Laredo employment comes from where the jobs are at. I am not including in these figures our subcontractors, which in most cases is twice the employment which works on our projects.

And that is only our area. I have some other figures from the State comptroller's office. During the period of July 1982 to May 1983, there have been 438 businesses closed. At the same period of time, there have been 390 new businesses.

Even though the difference between closings and openings might not be much, many of the businesses that have closed had high employment, and the ones that are opening now are a one or two-individual. So there is a big area there of unemployment.

The peso devaluation certainly in the retail industry has affected Laredo tremendously. There has been a lot of unemployment due to that and a lot of businesses closing. The business drop, according to their statistics, right now are anywhere between 30 and 80 percent, depending on the business.

Unemployment, coupled with the devaluation, will continue to drop sales in business and more unemployed. In the export-import industry, it has practically come to a complete stop. There has been lately some improvement in the importing of Mexican goods but they are not signficant.

The outlook for the industry is bleak, to say the least. Some of the consequences of all of what has happened: housing, for example.

People are losing their homes every day. The housing industry is dead. Laredo housing authority reports that public housing, though available, cannot support it. The waiting list is growing rapidly, and no funds to help those in need.

Social problems, one area. The State child protection agency: 1982, Webb County alone had 1,119 cases of child abuse, includes physical, emotional, neglect and sexual. In the first 2 months of this year, their cases have gone up to 745 cases, in 2 months, of maltreated children. And 318 cases have family problems, all attributed to unemployment.

In 1974, this agency had 12 case workers. Due to the cuts in the last few years, they have been cut down to six. They are not able to keep up the many cases that confront them on a day-to-day basis, so that the number of 745 child cases and 318 family cases are only a few of the cases. They cannot any more take care of the problem.

The crime rate in the city of Laredo is growing. I do not have the statistics for that. I am only telling you what I read in the paper every day, and it is growing fast.

Because of the situation, there is another big area that has to be considered: the city, the county and the school systems. Due to the

unemployment and the tremendous drop in business, taxes are going to be reduced. Not because they might not be due, but because the funds are not going to be available to pay. This in itself will create even more problems. Services provided by these institutions will more than likely not be able to handle them.

Congressman, you have seen me make this report, and it is a bleak one. I don't appreciate it any more than anyone else.

There is a group of large businessmen in Laredo and some of our city councilmen and commissioners that are working every day. I don't work in my business any more, but trying to correct some of this. We are in dire need of help from someone. So anything that can be done will be appreciated.

Thank you, sir.

Mr. HANCE. Thank you very much.

I have some questions. I will come back in just a minute after we hear from Mr. Cawood.

STATEMENT OF JACK CAWOOD, ACTION REALTY CO., McALLEN, TEX.

Mr. CAWOOD. In my opinion, the long range prospects for growth in the real estate industry in McAllen are excellent; however, we are presently in a severely depressed market. During 1981, and the early part of 1982, approximately 40 percent of all real estate sales were to Mexican nationals. These sales generally ranged from $50,000 homes to $500,000 properties, and most were not financed. Home prices advanced 30 percent during this period, and builders and realtors geared up to service this overheated market.

Due to the devaluation of the peso, we lost about 95 percent of the Mexican national buyers, and real estate prices began to decline. This decline is continuing, not only because of the loss of buyers, but also due to the ripple effect on other business and resulting layoffs.

Board membership is down 11 percent. Single family building permits has declined from an average of 114 per month in 1981 to 96 per month in 1982, and to 31 per month in 1983, or 69 percent. We have about a 75-percent occupancy rate in apartments as opposed to 95 to 97 percent before the devaluation.

The above statistics apply to the overall market, and not to my company. However, it might be of interest to note that my company has sold 29 repossessed McAllen homes this year.

In summary, Mr. Chairman, the real estate industry, as a direct result of the peso devaluation, is suffering a very traumatic adjustment period.

Thank you.

[The prepared statement follows:]

STATEMENT OF JACK CAWOOD, REALTOR

Mr. Chairman, in my opinion, the long range prospects for growth in the Real Estate Industry in McAllen are excellent, however, we are presently in a severely depressed market. During 1981, and the early part of 1982, approximately 40 percent of all Real Estate sales were to Mexican Nationals. These sales generally ranged from $50,000 homes to $500,000 properties, and most were not financed. Home prices advanced 30 percent during this period, and builders and Realtors geared up to service this overheated market.

Due to the devaluation of the peso, we lost about 95 percent of the Mexican National buyers, and Real Estate prices began to decline. This decline is continuing, not only because of the loss of buyers, but also due to the ripple effect on other business and resulting lay-offs.

In the past twelve months, home values have declined from 10 percent to 30 percent, depending upon the size of the property. We have over 1,000 housing units listed in the Multiple Listing Service—twice the normal number of units, and MLS sales are down 42 percent. The Board of Realtors membership has declined from 499 to 442, or 11 percent. McAllen single family housing permits have declined from an average of 114/month in 1981, to 96/month in 1982, and to 31/month in 1983, or 69 percent. We have about a 75 percent occupancy rate in apartments as opposed to 95–97 percent before the devaluation.

The above statistics apply to the overall market, and not to my company. However, it might be of interest to note that my company has sold 29 repossessed McAllen homes this year.

In summary, Mr. Chairman, the Real Estate Industry, as a direct result of the peso devaluation, is suffering a very traumatic adjustment period.

Thank you.

Mr. HANCE. Jack, let me ask you something while it is fresh in my mind. On the sales you were making to the Mexican nationals, was that a second home for them?

Mr. CAWOOD. In most cases I would say an additional home, yes. Some investment property, but primarily homes.

Mr. HANCE. With the action the Mexican Government has taken, what percentage of those people still own the property here?

Mr. CAWOOD. Probably two-thirds, with half of those being on the market.

Mr. HANCE. So one of the main reasons they haven't sold them is they haven't been able to sell them?

Mr. CAWOOD. That is correct.

Mr. HANCE. Joe, a question for you.

Mr. ALEMAN. Yes, sir.

Mr. HANCE. Most of your automobile dealers across Texas and across the country have seen an increase in sales in the last year. It has been a little better than it was. Approximately what have your sales and those of other dealers been in this area? Have they held fairly stable?

Mr. ALEMAN. No, Congressman. We are at 50 percent of what the other dealers throughout the State of Texas are doing. You have to consider this area has sort of always been the forgotten area of the United States. When they talk unemployment they talk about Chicago and Detroit. For some reason they never recognize this part of the United States.

The point you were asking, we are running 50 percent less than Houston, San Antonio, and Dallas are doing, basically because we are, quote, agriculture industry. And that as you know is down. Consequently, our people—the unemployment is hurting us throughout the business community.

Mr. HANCE. How long have you lived in this area?

Mr. ALEMAN. All my life.

Mr. HANCE. And I won't ask you how long that is.

Mr. ALEMAN. Would you believe 30?

Mr. HANCE. I will buy that. [Laughter.]

I think we were probably born about the same time.

As the Mexican economy has fluctuated over the years, has it always had this direct an impact on your business, or is this just highly unusual?

Mr. ALEMAN. You have to consider the fact that the automobile business was not geared per se to the Mexican customer. What we did a lot of was service and parts. As you might know, the Mexican national was unable to take a new car to Mexico. It was 5 years and older model years that they could take to Mexico. Consequently, we were not geared to selling new automobiles to Mexico. What we were geared for was to service their cars, and to sell parts and accessories. So we didn't lose the sales part of it per se as far as automobiles. We lost the service part of it.

In my operation I was carrying 40 mechanics. Right now I am down to 25, and I could do with another 10 and cut it down to 15 mechanics, because the work is just not coming in. We are in the process of, not only the automobile business but all the retailers, of adjusting our marketing. We have to make adjustments to expenses. We have to make adjustments to inventory. For example, I used to carry 60 wheel carts in inventory. I am down to 30 because that is basically what I should carry for the market we are facing right now.

Our main concern right now, Congressman, is our local economy. As I stated, we don't foresee Mexico coming back 3 or 5 years from now. We know——

Mr. HANCE. It is going to be a long haul.

Mr. ALEMAN. Yes, sir. We know on the local level there isn't much we can do. Instead of once a week, we can go to church three times a week. Other than that, that is about what we can do. But as far as our local people, we are facing a disaster as far as unemployment and social services. There is no question about it.

Mr. HANCE. What do you think can be done to diversify the economy down here so it wouldn't be so affected by Mexico's problems?

Mr. ALEMAN. The solution, of course, is long term. The ideal would be industry. We, in conjunction with chambers of commerce and city employees, city councils, throughout the whole valley, would love to bring a General Motors plant to this part of the country. We are not dreaming. We know we are not going to do it. But this enterprise zone deal that is in Ways and Means now if Congress passes, it will give us an opportunity to at least attempt to bring light industry, at least work for the future and say that we will concentrate on bringing industry that will hire 100 to 150, 200 people, instead of bringing a plant that will hire 1,000 people. I don't foresee the future because of our location of ever getting a plant with a thousand employees. I really don't.

I see that area, to diversify, to include industry, would have to concentrate on light industry. I am talking about high technology, perhaps the medical industry. I foresee 50, 100 employees per plant. The enterprise will be a tremendous effect for us. It would be very beneficial.

Mr. HANCE. We will follow that one closely and make sure that if that legislation passes, it is written in a way that will help that area. That bill was set out primarily to help the larger inner cities like New York, Philadelphia, places like that.

Mr. ALEMAN. Yes, sir.

Mr. HANCE. But under the circumstances, the need is definitely here. That would be a way of drawing jobs in that would be lasting. You talk about the interest rates. I think much of what you are

facing is similar to what Lubbock went through in 1970 when we had a devastating tornado hit the city. It was no fault of ours.

Just like the devaluation, no fault of yours. But it was a catastrophy. At that time, the SBA loans that were available to our people were 2 and 3 percent loans, with 25 years to pay out. Well now, you can recover on a deal like that.

Mr. ALEMAN. Yes, sir.

Mr. HANCE. But when you are talking about 10 to 14 percent interest rates, you can't service the debt on it. Congressman de la Garza has a bill that has been reported out of committee, along with the chairman of the committee, Parren Mitchell, that would in effect provide for a Government subsidy on the interest rates on certain types of loans in areas that have been hit because of the peso devaluation.

But I think it is a national responsibility. You know those of us in America have always been prone to help our neighbors when there is a disaster or something. And that is part of it. And, from what members that represent these areas have told me, plus what I did know and plus what I heard this morning, it is quite evident that the situation here is still a catastrophy, whether there was a natural disaster to go along with the catastrophy or not.

Ruben, I want to ask you a question or two. You are in the construction business?

Mr. GARCIA. Yes.

Mr. HANCE. What type?

Mr. GARCIA. Commercial construction. Warehousing, hospitals, football fields, industrial and commercial, both. Yes, sir.

Mr. HANCE. Did you do any building outside of Texas?

Mr. GARCIA. No. We have always stayed; in fact, we have been in the construction business about 12 years, and most of those 12 years have been in Laredo, alone. We have built, our company has built, over 6 million square feet of warehouses in Laredo. We have had developed in the last 8 years something like 400 acres of industrial sites, with railroad and all the other things that go with it.

We have done hospitals, stores, big supermarkets, malls, that type of construction.

Mr. HANCE. I guess the warehouse and retail store construction was primarily because of the development of the business from Mexico?

Mr. GARCIA. All totaled, I would say yes. Because of the export-import business and Laredo being where it's at, it's always been big in that area. A lot of construction was going on. There was no problem for us. For example, to sell two and three, up to five jobs per month of warehouses averaging anywhere from 10,000 to 50,000 square feet. That was going on every month for let's say 1978, 1979, 1980.

But then, since the devaluation, that has come to a complete screeching halt. We have not sold one to date. There is an abundance of square footage available now.

Mr. HANCE. Retail and warehousing?

Mr. GARCIA. Warehouses for the import-export business. Certainly in the retail business there are some new malls that had been built just last year that have been closed down totally. Just closed down. There is a lot more businesses being shut down every week.

When I tell you that the new option, I didn't know this until I got the report from the comptroller, I guess it is that so many people that are losing their jobs are opening up little businesses just to try to make it.

But it is certainly not taking care of the tremendous unemployment. For us to see 30 percent, I am sure we will see that even within the next 2 or 3 months.

Mr. HANCE. Were very many of the people you were building for and selling to citizens of Mexico?

Mr. GARCIA. Yes, quite a few of them.

Mr. HANCE. They were investing here in the United States?

Mr. GARCIA. Well, not necessarily investing because they had their offices over here. They actually worked on this side. And they also had employment on this side. They had offices both perhaps in Mexico City or Nuevo Laredo, for example, and Laredo, because through Laredo, all the goods going into Mexico came through Laredo.

Mr. HANCE. What is happening to the economy in Nuevo Laredo?

Mr. GARCIA. I would think it is booming, due to the circumstances and devaluation of the peso. There is a lot of dollars now being spent in Mexico, and with just cause. You can go over there and buy a coke for 15 cents. So when you hear that——

Mr. HANCE. You can just look across and see——

Mr. GARCIA. Prosperity.

Mr. HANCE. Where it is going.

Mr. GARCIA. Yes. They are having problems with housing because there is a lot of people up there. We were fortunate that a racetrack was opened just recently here in February. That in itself helps quite a bit. Even in Laredo the hotel situation, restaurant situation, filling stations keep pretty busy because there are 4 days of that: Thursdays, Fridays, Saturdays, and Sundays. So that is what has helped the economy in the area of the hotel industry. And restaurant industry.

Mr. HANCE. Have you been in business there for a long time?

Mr. GARCIA. I think you mentioned a while ago, for a long time, since I was born.

Mr. HANCE. Have you ever seen it this bad? If so, when? Have you ever seen it comparable?

Mr. GARCIA. No, I am afraid the—it is a devastating situation right now. It has happened. About 6 years ago it slowed down some, but that lasted for only 2 or 3 months. And it really didn't slow down, but it did have some kind of a stop there for a little bit.

And when the devaluation occurred before, from 12.50 to 25. It did have some effect, but not really all that much. This one has prolonged it. Even with the situation, when the first, in February, the first devaluation came about, things started slowing down. The devaluation was bad enough that a lot of the Mexican people that do business in the United States are not doing it. When it hit in August and the final blow, that was just—completely killed the horse, so to speak.

Mr. HANCE. During the last 2½ to 3 years, we have seen interest rates go up. What percent of lost business can be blamed on high interest rates in our recession, the American recession, and what percent can be blamed on the devaluation of the peso?

Mr. GARCIA. Well, you have to understand, Congressman, at the time that the interest rates started going up and got as high as they did, Laredo was booming.

Mr. HANCE. It was still maintaining that?

Mr. GARCIA. It was still moving along and, despite the 20 percent, whatever, things were moving along. So that even though it does have some effect, that wasn't primarily the cause of what has happened. The devaluation has been a lot more critical to us than the high interest rate.

Mr. HANCE. Were they getting long-term financing during that period of time at 18 to 20 percent?

Mr. GARCIA. Most of the—that I know of, most of the financing was for no more than 5 years; very seldom 7 years. All of it was on floating rates so that if the interest rates started coming down, their rates would come down. They were not fixed notes or fixed loans. They were bank loans.

Mr. HANCE. Are the people you dealt with from Mexico who were involved in business in Laredo still around; and what is their opinion? What do they perceive happening?

Mr. GARCIA. It is very bleak. Mexico is not importing anything anymore. Other than grain, which is an abundance of that being shipped to Mexico, by the carloads. But warehousing, it is not necessary for that. Equipment is no longer going over there. Very few raw materials are going into Mexico.

And my understanding, it will be some time before it ever really starts increasing in any manner. Significant manner.

Mr. HANCE. You may not know this since you may not deal in this type real estate, but has the number of homes, condominiums, and townhouses, that were being bought by the Mexican nationals, declined in Laredo as much as Mr. Cawood testified that they have declined in the valley?

Mr. GARCIA. Yes, sir, I do not have the statistics. I am not in that business. But I do have apartments. And I know that on one of them, I think we are down about 30 percent occupancy right now. That I own, which was full. There was a waiting list, always, for those apartments. Right now, out of 40 some, there should be about 7 or 8 that are empty and they have been that way for the last 6 months.

Not only ours but a number of other apartment houses are having really a lot of problems. There was a lot of homes built over the last 5 years in Laredo. And a lot of people are losing them at this point. The thought was that people in Laredo have something very special. That when somebody in the family is having a problem, the father or brother or sister will pick up the other part of the family. And that has been going on for the last 6 months or so.

But now it is getting to the point that the guy that went out there to bring this one in is running out of a job, too. And so what happens next? And so, despite the business part of it and everything else, there is no business, there is no work. I am afraid that the people of Laredo are going to suffer tremendously by the situation.

Mr. HANCE. El Paso has weathered this storm a little better than the rest of the Texas border. Is that because they have a more diversified economy?

Mr. GARCIA. They have a lot of manufacturing going on. I believe their unemployment rate hasn't hit 10 percent yet. I think that that has helped it, the manufacturing in Juarez. While it does have a tremendous volume of workers working, while at the same time it is in El Paso because it goes back and forth, finished goods, the twin-plant concept that they have so well established over the years. I believe that is one of the reasons that they have been able to maintain a much lower unemployment than Laredo or anywhere down here in the valley.

Mr. HANCE. Jack.

Mr. CAWOOD. I would like to add, as far as real estate goes, I keep in contact with people up and down the border area. El Paso did not have the percentage of investment in real estate that Laredo, McAllen, and Brownsville had. We see that even in the Harlingen real estate market. It isn't nearly as slow as McAllen and Brownsville are. A lot of it was because of up to 40 percent investment from Mexico that came to McAllen and Brownsville. The others aren't affected to the degree we are.

Mr. HANCE. Why, Jack, did they come primarily to those areas?

Mr. CAWOOD. Proximity to major metropolitan areas, in my opinion.

Would you agree with that?

Mr. ALEMAN. That would be correct.

Mr. CAWOOD. Give us some statistics.

Mr. ALEMAN. We have Monterey, which is a 2½-hour drive for them; over 2 million people. Our airlines used to have three flights out of Mexico City to Mexicali, and they are down to zero now, going and coming.

I will be very frank: Most of the people pick McAllen because it is McAllen, and it is a very unique, beautiful city.

Mr. CAWOOD. From what I ascertained, we received a higher percentage of Mexican investment than any other border city.

Mr. GARCIA. I would go along with that.

Mr. HANCE. It was great while it was great, but it is sure bad while it is bad.

One thing I would mention to you, I mentioned earlier before you got here, Congressman Kazen, who has worked closely with us on these hearings. We appreciate his help and will be working with him—I mentioned earlier, the Texas delegation works pretty closely together. I always talk with him about my problems at Reese Air Force Base, since he is on the Armed Services Committee. He is always understanding, so I feel the same way about these problems.

The enterprise-zone legislation will be a top priority for us. Hopefully, we will get it passed out this year. This will be a very top priority.

Do any of you have any questions?

OK. Thank you very much for coming.

I am sorry I was a little late on you, Ruben. You made it just in time.

Mr. GARCIA. I will make it back by 12.

Mr. HANCE. I gave you extra time.

Mr. GARCIA. Thank you.

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Mr. HANCE. We are running a little early. It is 11:15. We are on the 11:30 panel.

Alden Schiller, you are here; Ernest Barbosa, you are here; Robert de la Garza; and Dr. Gilbert Cardenas, you are here. It wouldn't hurt if we took a quick break since we have been seated about 2½ hours. Why don't we start in 10 minutes.

[Recess.]

Mr. HANCE. We will resume.

One thing I wanted to mention—I have a statement from Congressman Ortiz that concerns some of our committee's jurisdiction, but mostly in the area of Small Business Administration loans. I am going to insert it in the record at this time. He has worked very hard with us. And I would say to those from his area, he has done a good job in making people aware of this problem.

[The prepared statement of Mr. Ortiz follows:]

STATEMENT OF HON. SOLOMON P. ORTIZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

I would like to thank my colleague, Congressman Hance, for giving me this opportunity to again voice my support for the enactment of legislation to reinstate the Small Business Administration's non-physicial disaster loan program.

Our Mexican border economies are unlike any other economic environment in the country. Few who do not live in our border areas are aware of the tremendous Mexican American economic interchange. The devaluation of the peso has altered enormously the business picture along the border. Should these areas continue to receive so little in Federal assistance, the fiscal survival of communities along the 1933 mile long border is certainly threatened.

The area that stretches from Laredo to Brownsville, Texas contains the three poorest standard metropolitan statistical areas in the country. They are Brownsville, McAllen and Laredo. The economies of these areas have always been tenuous—dependent upon weather variables, vacation whims of northerners, and the influx of shoppers from Mexico. The current devaluation of the peso places a fragile economy under even further strain.

The impact of the devaluation can be seen in every facet of community life. Business districts which once bustled with activity have ground to a halt. Retail border businesses dependent upon Mexican trade have seen their sales drop 60–80 percent. In Brownsville, over 30 businesses have closed in the past year—leaving people out of work, the city with less in sales tax income, and courts with increased bankruptcy petitions. Sales in one major department store declined over $16 million in one year! Services and other types of businesses not dependent upon Mexican trade have suffered from their local customer's economic reverses.

According to a spokesman for the Brownsville Chamber of Commerce, the best barometer of the effect of the peso devaluation is the revenue generated by sales tax. Sales tax receipts for Texas border cities from March, 1982 to March, 1983 vividly illustrate the depressed climate: Brownsville, down 44 percent; Laredo, down 55 percent; and El Paso, down almost 44 percent.

Sales tax receipts are critical to maintaining vital city services. Brownsville has so far been lucky—city managers have avoided cutbacks in services and the school system is maintaining its present schedule. Other areas have not been so fortunate. One border town has been forced to lay off 120 city employees.

While the national recession has brought the highest unemployment levels since World War II, the jobless rates in the Valley are staggering in comparison to the national figure of 10 percent. Seventeen percent of the Cameron Co. workforce is out of work; in Starr Co. the figure is 49.6 percent; Hidalgo Co. has a 20.5 percent rate.

High unemployment is straining all public resources. The director of the Brownsville Community Health Clinic reports a 26 percent increase in patients since the first devaluation of the peso. Applications for food stamps in Cameron Co. rose 19 percent in a six-month period and AFDC applications were up 11.8 percent.

Recently in testimony before Congressman Parren Mitchell's Subcommittee on Small Business Administration, my colleagues Congressman de la Garza, Coleman and Kazan and I were able to open a few eyes on Capitol Hill to the difficulties caused by the peso devaluation. We were testifying in behalf of several bills intro-

duced to provide disaster loans through the Small Business Administration in areas such as the Rio Grande Valley where the fluctuation of Mexican currency has spelled economic calamity.

After our testimony, Chairman Mitchell promised that he would steer a bill through his committee and it is due to his diligence that the four bills my colleagues and I supported have been reconciled into one, H.R. 3020. This legislation will provide for loans of up to $100,000 at lower than prime interest rates and includes a measure to allow deferment of payments on both the principal and interest for one year.

The SBA originally addressed the resulting problems of foreign currency devaluation in 1976 when the peso devaluation caused serious dislocation along the border. The SBA program was killed with passage of the Gramm-Latta bill in 1981. The Administration has shown reluctance to provide some sort of disaster assistance to border residents during the current crisis.

In August, 1982, the SBA did establish a direct loan and loan guarantee program for stricken businesses. The $200 million dollar program was funded by left over monies from other SBA revolving loan programs and was lent to businesses at the same rate as other SBA loans with only a three month deferral period on principal and interest. This was hardly the disaster program sought by the ailing border business community and the highly touted Peso Pack program has been less than a success. The high interest rates charged, in some cases 14⅝ percent, sent some to seek cheaper, SBA guaranteed bank loans. Out of the $200 million, only $25 million had been lent as of April, 1983. Out of the 642 applications received, only 314 had been approved.

H.R. 3020 is a great improvement over the present SBA Peso Pack program. The interest rate will be lower than the prime, the deferral time is increased to one year and it ties the criteria of loan selection to the economic dislocation. The bill has now gone to the full Small Business Committee, charied by Mr. Mitchell, and pending the outcome of the House-Senate Budget Conference, will go to the House floor.

The problem we face in passing this legislation is an Administration which opposes any direct loan program. Counterpart legislation in the Senate will have a much harder passage than in the House.

We must continue to open the eyes of those in Washington who have the authority to provide this much needed assistance. We must aid our beleaguered border areas. The provision of selected funds to targeted areas does not help just those businesses that receive the loans, but it will help the entire community in which the business is located. H.R. 3020 will help as a first step by providing businesses with the emergency assistance necessary to stay afloat. I will continue to push for this legislation and I will work hard to make the voices of my constituents in the Valley heard in Washington.

Mr. HANCE. At this time, let's go ahead and continue. Dr. Cardenas, I think, has a class at 12:30. Having taught for 5 years at the college level, I can certainly understand his situation.

Without objection of the others, I will let you go first.

I taught my first class at Texas Tech, which has such a large campus that they have buses that take students from building to building. They had the red route, the green route, and the yellow route. So I asked my students in my first class, "Which bus do I get on?" There was a big, old cowboy who said, "The one that says 'Albuquerque.' " So I was always a little leery of that class from then on.

Doctor, we appreciate your being here.

STATEMENT OF GILBERT CARDENAS, ASSOCIATE PROFESSOR OF ECONOMICS, PAN AMERICAN UNIVERSITY, EDINBURG, TEX.

Mr. CARDENAS. Thank you, Mr. Chairman. I am delighted to be with you here.

My name is Dr. Gilbert Cardenas. I am currently an associate professor of economics at Pan American University. I would like to thank you for the opportunity to testify on the economic impact of the peso devaluation on unemployment and public assistance to

this Subcommittee on Unemployment Compensation and Public Assistance of the U.S. House Committee on Ways and Means. I have done extensive work on the economic problems of the United States-Mexico border, not limited to the peso devaluation, the Mexican economy, illegal immigration, and employment problems of Hispanic workers.

For many years, Mexico has played a vital role in the economic development of the border region. The relationship between the United States and Mexico has encompassed much more than trade. Because of the close proximity to Mexico, history, culture and custom, the border region has been largely interdependent with Mexican economic developments. Trade between the United States and Mexico has been good for many years, but often times their problems have made their way into border economies. In the contemporary setting, three peso devaluations of 1982 have left the border reverberating, have interrupted moderate growth, and have left many jobless throughout the various industries in the border region.

Among the major areas that have been hurt from such economic developments have been the McAllen-Pharr-Edinburg and Brownsville-Harlingen, San Benito areas. And I am here to talk basically about the impact on the valley basin, and some economic evaluation I have done as a result of some research in which I am involved. These metropolitan areas were among the fastest growing areas in Texas in 1980 but among the poorest in the State and Nation.

In 1983, the McAllen-Pharr-Edinburg and Brownsville-Harlingen-San Benito areas continue to experience severe problems with respect to unemployment and poverty. The peso devaluations of 1982 have created undue hardship on economic life in the border region as well as on businesses, workers and local governments. Unemployment in the Lower Rio Grande Valley has been unusually high for many years.

I am entering the statement for the record. Also, there are 4 tables involved in terms of some of the economic analysis on the unemployment situation.

The unemployment rates in the McAllen-Pharr-Edinburg and the Brownsville-Harlinger-San Benito SMSA's are among the highest in the State. For example, in 1981, the average annual unemployment rate in Texas was 5.3 percent; this compares to 13.3 percent for McAllen-Pharr-Edinburg and 9.6 percent for Brownsville-Harlingen-San Benito. In 1982, the national economic recession and three peso devaluations led to higher unemployment in Texas and the border labor markets.

In 1982, the unemployment rate increased significantly in Texas to 6 percent; however, the unemployment rates were much for McAllen-Pharr-Edinburg, 15.5 percent, and Brownsville-Harlingen-San Benito, 12.4 percent, and the unemployment rates are still climbing.

Unemployment in the Lower Rio Grande Valley caused by the peso devaluation and the national recession has been of cyclical nature. The extent of cyclical unemployment caused by the peso devaluation has been attributed to the decline in demand of goods and services purchased formerly by Mexican shoppers. The peso de-

valuation has lowered the purchasing power of the peso and has made American goods much more expensive. The lack of aggregate demand for these goods has reduced the purchases in terms of retail sales in U.S. border labor markets. Of course, in the valley you also have additional problems associated with structural unemployment, and particularly among migrant farm workers and poor Mexican Americans.

The impact of the peso devaluations have been felt throughout the various economic sectors. It has resulted in loss of retail sales, employment, tax revenues, and business closings in the respective border cities. In the McAllen-Pharr-Edinburg area, the three peso devaluations have resulted in the loss of approximately 2,124 potential jobs, assuming moderate growth prior to the devaluation. This metropolitan area has lost out on approximately $1.2 billion in retail sales that could have been gained in the absence of the peso devaluations.

In the case of wholesale and retail trade, which was affected most by this occurrence, nearly 1,719 potential jobs were lost as a result of the peso devaluations. The consequences of the economic crisis are such that the number of unemployed increased significantly between 1981 and 1982.

For example, we have talked about the fact that the unemployment rates are generally high in the valley. Well, what happened in 1982 as a result of the peso devaluation, 2,008 unemployed individuals were added to the unemployment rolls than expected in the absence of such devaluations.

The Brownsville-Harlingen-San Benito area was hurt by the peso devaluation. For some reason, according to the data, nearly 5,589 jobs would have been created had the devaluations not had an impact on the local economy. Remembering, for example, in that area you have a slightly larger manufacturing sector that is associated with border twin-plants type things and other industrial organization programs.

Approximately, however, the peso devaluation resulted in losses of nearly $735,000 in potential retail sales because of the devaluations. Losses of 1,574 potential jobs were reported in wholesale and retail trade as a result of the peso devaluation. An additional 2,228 were added to the unemployment rolls than expected in the absence of such devaluations in the Brownsville-Harlingen-San Benito area.

The peso devaluation impact along border labor markets continues. Economic recovery in the McAllen and Brownsville area appears to be very difficult. The indirect consequences of the peso devaluation continue to penetrate other sectors with the valley residents and the unemployed spending less on consumer goods. In other words, on the one hand we have unemployed individuals who don't have the money to buy goods and services. On the other hand, the unemployment taxes, for example—businesses are being penalized with higher unemployment taxes to the point that it makes it even harder for them to hire them back despite the fact that they would be very interested in hiring workers back.

With losses in sales and workers, many valley businesses have closed or are likely to close with the rise of potential bankruptcies. I presume Mr. Schiller will address that issue later.

The economic crisis continues to make economic life difficult for many businesses located particularly in Hidalgo, and downtown McAllen and Brownsville. I am sure you have heard the nature of the impact is much more severe in the downtown areas of these border cities.

With bank debts to pay, layoffs and unsold inventories, many businesses that were highly dependent on Mexican trade are having severe problems surviving these economic problems. With possible prospects of another devaluation in July 1983, the prospects for economic recovery and increased potential of the Mexican market look dim.

Last week, I was in Mexico City on a briefing from the Banco de Mexico, and I was addressing this particular issue. They wanted to know about the devaluation impact and, at the same time, were briefing us about the situation. Apparently, it has to do with adjustments. Not that that other devaluation will have a severe impact on the valley, because Mexican shoppers are coming, but it is not there any more. But, again, the prospects in Mexico do not look very, very good.

Because of the severe consequences of this economic crisis in increases of unemployment and welfare recipients, it is most important that increased Federal aid be provided for the border region for economic development purposes. Every effort should be made at the Federal level to declare the region as an economic disaster area. And I am sure you have heard Congressman de la Garza and the chamber of commerce and others about the necessity of further development of the border region.

Federal domestic assistance programs in the form of unemployment compensation, welfare, food stamps, and economic development funds should be increased to alleviate the impact of this economic crisis. The Federal Government should also assist in providing low interest loans from the Small Business Administration to assist for business development purposes.

One of the things working with SBA closely in the valley is the solution is not to go into bigger debt. It doesn't help for SBA to bail them out with high interest rates. What I am advising some of the local businesses is not necessarily to borrow any more loans at high interest rates, but to sort of wait to see what SBA and committees like yours can do to develop low interest loans.

Every effort should be made for support and assistance of enterprise zones to promote economic development and business ventures throughout the economically depressed areas. Again, the enterprise zone is an excellent concept that I perceive will play a very vital role if the legislation is passed at the Federal level. Particularly, I know it will have a serious impact on the valley.

The social and economic problems in the border region, particularly McAllen-Pharr-Edinburg and the Brownsville-Harlingen-San Benito area, are real and necessitate your immediate attention and priority. Without further Federal assistance, the region will continue to deteriorate and the problems will persist and worsen. It is in the national interest to assist the 4 million citizens residing along the United States-Mexico border with economic aid to upgrade the quality of life in the region.

Border economic development is of utmost importance to both the United States and Mexico. There is tremendous economic potential in the region with vast human resources and excellent business climate. However, without the appropriate Federal assistance, the border region cannot develop to its fullest potential.

Thank you very much.

Mr. HANCE. Thank you.

We will go on with the other witnesses. If you need to slip out, we understand.

Mr. CARDENAS. Thank you very much for the opportunity. I am sorry for the inconvenience.

Mr. HANCE. No problem.

[The prepared statement follows:]

STATEMENT OF GILBERT CARDENAS

My name is Dr. Gilbert Cardenas. I am currently an Associate Professor of Economics at Pan American University. I would like to thank you for the opportunity to testify on the economic impact of the peso devaluation on unemployment and public assistance to this Subcommitte on Unemployment Compensation and Public Assistance of the U.S. House Committee on Ways and Means. I have done extensive work on the economic problems of the U.S.-Mexico border not limited to the peso devaluation, the Mexican economy, illegal immigration, and employment problems of Hispanic workers.

For many years, Mexico has played a vital role in the economic development of the border region. The relationship between the U.S. and Mexico has encompassed much more than trade. Because of the close proximity to Mexico, history, culture and custom, the border region has been largely interdependent with Mexican economic developments. Trade between the U.S. and Mexico has been good for many years, but oftentimes their problems have made to their way into border economies. In the contemporary setting, three peso devaluations of 1982 have left the border reverberating, have interrupted moderate growth, and have left many jobless throughout the various industries in the border region.

Among the major areas that have been hurt from such economic developments have been the McAllen-Pharr-Edinburg and Brownsville-Harlingen-San Benito areas. These metropolitan areas were among the fastest growing areas in Texas in 1980 but among the poorest in the state and nation. In 1983, the McAllen-Pharr-Edinburg and Brownsville-Harlingen-San Benito areas continue to experience severe problems with respect to unemployment and poverty. The peso devaluations of 1982 have created undue hardship on economic life in the border region as well as on businesses, workers, and local governments.

Unemployment in the Lower Rio Grande Valley has been unusually high for many years. Unemployment rates in the McAllen-Pharr-Edinburg and the Brownsville-Harlingen-San Benito SMSA's are among the highest in the state. In 1981, the average annual unemployment rate in Texas was 5.3 percent; this compares to 13.3 percent for McAllen-Pharr-Edinburg and 9.6 percent for Brownsville-Harlingen-San Benito. In 1982, the national economic recession and three peso devaluations led to higher unemployment in Texas and the border labor markets, In 1982, the unemployment rate increased significantly in Texas to 6.0 percent; however, the unemployment rates were much higher for McAllen-Pharr-Edinburg (15.5 percent) and Brownsville-Harlingen San Benito (12.4 percent). Unemployment in the Lower Rio Grande Valley caused by the peso devaluation and the national recession has been of cyclical nature. The extent of cyclical unemployment caused by the peso devaluation has been attributed to the decline in demand of goods and services purchased formerly by Mexican shoppers. The peso devaluation has lowered the purchasing power of the peso and has made American goods much more expensive. The lack of aggregate demand has reduced the purchases in terms of retail sales in U.S. border labor markets. Structural unemployment and seasonal unemployment, particularly among migrant farmworkers and poor Mexican Americans is also prevalent throughout the Lower Rio Grande Valley.

The impact of the peso devaluations have been felt throughout the various economic sectors. It has resulted in loss of retail sales, employment, tax revenues, and business closings in the respective border cities. In the McAllen-Pharr-Edinburg area, the three peso devaluations have resulted in the loss of approximately 2,124

potential jobs. This metropolitan area has lost out of approximately $1.2 billion dollars in retail sales that could have been gained in the absence of the peso devaluations. In the case of wholesale and retail trade which affected the most by this occurrence nearly 1,719 potential jobs were lost as a result of the peso devaluations. The consequences of the economic crisis are such that the number of unemployed increased significantly between 1981 and 1982. An additional 2,008 unemployed individuals were added to the unemployment rolls than expected in the absence of the such devaluations.

In the Brownsville-Harlingen-San Benito area, nearly 5,589 jobs would have been created had the devaluations not had an impact on the local economy. Approximately, the peso devaluation resulted in losses of nearly $735,000 in potential retail sales because of the devaluations. Losses of 1,574 potential jobs were reported in wholesale and retail trade as a result of the peso devaluation. An additional 2,228 were added to the unemployment rolls than expected in the absence of such devaluations in the Brownsville-Harlingen-San Benito area.

The peso devaluation impact along border labor markets continues. Economic recovery in the McAllen and Brownsville area appears to be very difficult. The indirect consequences of the peso devaluation continue to penetrate other sectors with the Valley residents and the unemployed spending less on consumer goods. With losses in sales and workers, many valley businesses have closed or are likely to close with the rise of potential bankruptcies. The economic crisis continues to make economic life difficult for many businesses located particularly in Hidalgo, and downtown McAllen and Brownsville. With bank debts to pay, layoffs, and unsold inventories, many businesses that were highly dependent on Mexican trade are having severe problems surviving these economic problems. With possible prospects of another devaluation in July, 1983, the prospects for economic recovery and increased potential of the Mexican market look dim.

Because of the severe consequences of this economic crisis in increases of unemployment and welfare recipients, it is most important that increased federal aid be provided for the border region for economic development purposes. Every effort should be made at the federal level to declare the region as an economic disaster area and provide the necessary funds for further development of the border region. Federal domestic assistance programs in the form of unemployment compensation, welfare, food stamps, and economic development funds should be increased to alleviate the impact of this economic crisis. The federal government should also assist in providing low interest loans from the Small Business Administration to assist for business development purposes. Every effort should be made for support and assistance of enterprise zones to promote economic development and business ventures throughout the economically depressed areas.

The social and economic problems in the border region, particularly, McAllen-Pharr-Edinburg and the Brownsville-Harlingen-San Benito area, are real and necessitate your immediate attention and priority. Without further federal assistance, the region will continue to deteriorate and the problems will persist and worsen. It is in the national interest to assist the 4 million citizens residing along the U.S.-Mexico border with economic aid to upgrade the quality of life in the region. Border economic development is of utmost importance to both the U.S. and Mexico. There is tremendous economic potential in the region with vast human resources and excellent business climate. However, without the appropriate federal assistance, the border region cannot develop to its fullest potential.

TABLE 1.—MEXICO'S PESO DEVALUATION IMPACT ON RETAIL SALES, EMPLOYMENT AND UNEMPLOYMENT 1980, 1981, 1982

	1980	1981	Actual 1982	Projected 1982	Loss/peso devaluation (Actual minus projected)
McAllen-Pharr-Edinburg:					
Total employment	81,651	88,200	93,150	95,274	−2,124
Retail sales (thousands)	$2,384	$2,043	$2,619	$3,884	−$1,265
Unemployed	12,036	13,500	17,150	15,142	+2,008
Trade	22,200	25,250	27,000	28,719	−1,719
Brownsville-Harlingen-Edinburg					
Total employment	72,583	76,600	75,250	80,839	−5,589
Retail sales (thousands)	$2,244	$2,678	$2,460	$3,195	−$735

TABLE 1.—MEXICO'S PESO DEVALUATION IMPACT ON RETAIL SALES, EMPLOYMENT AND UNEMPLOYMENT 1980, 1981, 1982—Continued

	1980	1981	Actual 1982	Projected 1982	Loss/peso devaluation (Actual minus projected)
Unemployed	7,745	8,100	10,700	8,471	+2,228
Trade	16,900	18,350	18,350	1,992	−1,574

Source: Texas Employment Commission, Texas State Comptroller's Office, 1982.

TABLE 2.—UNEMPLOYMENT RATES IN TEXAS, McALLEN-PHARR-EDINBURG AND BROWNSVILLE-HARLINGEN-SAN BENITO, 1981, 1982

	Texas		McAllen–Pharr–Edinburg		Brownsville–Harlingen–San Benito	
	1981	1982	1981	1982	1981	1982
January	5.7	5.9	15.6	14.0	11.5	11.4
February	4.7	5.8	13.3	14.8	9.9	11.0
March	4.8	5.7	12.3	13.5	9.6	10.2
April	4.3	5.9	10.7	11.8	8.3	10.7
May	5.2	6.3	12.7	11.8	9.4	10.9
June	7.2	7.7	15.2	13.9	12.0	12.8
July	5.5	7.3	13.3	15.1	9.2	12.2
August	5.8	7.0	15.3	16.0	9.3	11.0
September	5.4	8.0	14.5	19.9	8.6	15.5
October	4.7	7.6	11.6	18.5	8.5	14.6
November	5.6	7.6	13.3	18.3	10.2	14.7
December	4.6	7.4	11.8	18.3	8.2	15.1
Annual average	5.3	6.9	13.3	15.5	9.6	12.4

Source: Texas Employment Commission, 1982.

TABLE 3.—RETAIL SALES IN McALLEN-PHARR-EDINBURG AND BROWNSVILLE-HARLINGEN-SAN BENITO

[In thousands of dollars]

	1977	1978	1979	1980	1981	1982
McAllen-Pharr-Edinburg	1,426	1,705	2,233	2,384	3,043	2,619
Brownsville-Harlingen-San Benito	1,177	1,526	1,853	2,224	2,678	2,460

Source: Texas State Comptroller's Office, 1983.

TABLE 4.—ANNUAL RETAIL SALES IN McALLEN-PHARR-EDINBURG AND BROWNSVILLE-HARLINGEN-SAN BENITO

[Percent change]

	McAllen-Pharr-Edinburg	Brownsville-Harlingen-San Benito
1977–78	19.6	29.6
1978–79	31.0	21.4
1979–80	6.8	21.1
1980–81	27.6	19.3
1981–82	−14.0	−8.1

Source: Texas State Comptroller's Office, 1983.

Mr. HANCE. Alden Schiller, we appreciate the hospitality.

STATEMENT OF ALDEN SCHILLER, EXECUTIVE DIRECTOR, McALLEN CHAMBER OF COMMERCE, McALLEN, TEX.

Mr. SCHILLER. Congressman, welcome to McAllen.

I would like to correct one thing stated a while ago; that McAllen is not a minor border crossing, but is one of the more important bridges between Mexico and the United States.

Mr. HANCE. You would be derelict in your duty as executive director of the Chamber of Commerce if you didn't.

Mr. SCHILLER. That is right.

I hope you will excuse my chauvinism a little bit, but I would like to welcome you and the staff of the committee to McAllen and hope you enjoy yourselves. I appreciate your interest in coming down because we do have serious problems here.

I am always a little bit concerned—and Gilbert is, too—when we get on the same speakers' platform, because we have a lot of very similar things to say. So, in the interest of time, a lot of the recommendations, particularly that Dr. Cardenas made, I would like to second and not go into them in a great deal of detail.

I would like to try and put—a lot of the numbers that you hear about the peso devaluation, after listening through a hearing like this today, become just overwhelming numbers and are difficult to identify with unless you are here on a daily basis or unless you have some other similar example to identify with.

I believe you mentioned you had an Air Force base in your area that was near and dear to your heart; the economic impact of that, significant in a local community. The peso devaluation has had the effect of closing a major military installation in Brownsville and a major military installation in McAllen, one in Laredo, Eagle Pass, Del Rio, El Paso, and all the way along the border overnight, with none of the advance preparation that is made by the Federal Government in the event that that has to happen.

The number of jobs lost in trade and construction in Texas is equivalent to four Braniff Airlines' bankruptcies overnight without prior warning. So, with these kinds of examples, you can start to get a picture of the overwhelming impact that this loss of trade has had.

We had here in the McAllen area alone over a billion dollars flowing into our economy from the Mexican side of the border, across the entire border region of Texas, upward in excess of $3 billion that was being brought into the United States of America and circulated through our local economies. This flow of funds has been cut off. As Mr. Aleman and others have noted, there is not a whole lot we can do to immediately remedy that loss of purchasing power that has been pulled out of our economies.

Another thing to keep in mind about what you are hearing about the impact of the peso devaluation is, to echo something you said earlier, when times were good, they were really good; when times were bad, they are really bad. One correction I would make is that, actually, the times, when they were good, there were certain aspects of those times that were not really good.

The severity of the peso devaluation has been exacerbated by the abnormally overheated economies we have on the border and dislocations that were built into the economies as they overheated with

the overvalued peso in 1980 and 1981. So that immediately prior to the February peso devaluation in 1981, our normal economic growth curve, our city and Hidalgo County found itself above its normal growth curve by 30 to 40 percent. This led to speculative overextension of the economy; and, therefore, when the peso devaluation has occurred, we are now comparing a situation that was well over the growth curve to one that is well below it, and it is twice as bad.

To put it another way—if, as Dr. Cardenas said, another devaluation happened today, 200 to 1 or to 300 to 1, we wouldn't see a similar kind of economic effect from the position we are at right now. Down a further 20 or 30 or 50 percent in sales declines—because of the damage that has been done—the damage that was going to be done has been done. The Mexican trade is down to a trickle except in certain isolated instances.

The bottom line is that, for the border region here in Hidalgo County particularly, we need to create jobs. We need to create jobs through economic development programs that reduce our overdependence or tendency to get overdependent on servicing Mexican national demand.

We fully believe that the demand for Mexican nationals will eventually return some years hence with the return of stability in Mexico. But we feel that it is critically important now that we focus our efforts toward an integrated economy with American and other foreign tourism as a base, manufacturing development, health care, particularly in this city, and distribution as a focus of our economy.

This can only happen—and here is where you come in—with improved economic infrastructure in the area, with a growing U.S. economy, with a healthy U.S. economy, and healthy Texas economy, and a stabilization of the sociopolitical economic developments in Mexico.

As a Member of Congress and as a member of the Ways and Means Committee, again, I second—encourage you to take back what Gilbert recommended. I would also like to ask you to take back to your colleagues in Washington—to repeat something Mr. Aleman said earlier—that we are, in fact, a part of the United States; that between San Diego and Brownsville, you have 3 million people, a very large and very vital area of the United States. We have a 4,000-mile border with Mexico which needs adequate attention from the Congress and from the Federal administration, the country, the border, and our relationships with Mexico in terms of its impact on our national security and our national economic development.

To be specific—and a little more specific than two other speakers have been—before your committee, the House Ways and Means Committee, is a bill entitled the Enterprise Zone Employment and Development Act of 1983. This is S. 863, H.R. 1955. This bill is commonly perceived as a South Bronx-Newark bill. The concept of enterprise zones originated in Great Britain and has been adopted by certain proponents here in the United States. It is thought of commonly as a bill designed to revitalize decaying inner cities.

But if the bill that is on your desk were passed today, every Texas border city and significant other cities in Texas, including

parts of Lubbock, areas in your district, qualify as the bill is written to compete in the Federal competition with towns like Newark for enterprise zones.

We will commit every resource humanly possible if the Enterprise Zone Development and Employment Act of 1983 is passed by the Congress to designate McAllen as an enterprise zone as well as to work with other border cities to assist them in competing for such designation. We believe that over a 10-year period, after designation, as many as 10,000 new jobs can be created in an enterprise zone in McAllen, Tex., than would otherwise be created in that area or during that period of time. Any support we can give you in your efforts to pass this legislation, we will be glad to offer.

My other recommendations, Dr. Cardenas made. So I will adjourn here and allow you to ask me questions later.

Mr. HANCE. Thank you very much.

Mr. SCHILLER. Thank you.

Mr. HANCE. At this time I would call on Ernest Barbosa from Brownsville, with the chamber of commerce. We appreciate your being here.

STATEMENT OF ERNEST BARBOSA, CHAIRMAN, MERCHANTS COMMITTEE, BROWNSVILLE CHAMBER OF COMMERCE, ACCOMPANIED BY GEORGE C. BORREGO

Mr. BARBOSA. Thank you very much, distinguished panel, ladies and gentlemen.

I am Ernest Barbosa, a retail merchant in the city of Brownsville and chairman of the Brownsville Chamber of Commerce Merchants Committee.

Ever since the peso devaluations took effect in Mexico last year, Brownsville's economy has suffered a significant impact. This economic reversal can very easily be observed in the number of retail establishments, both locally owned and nationally owned, that have gone out of business in our community during the past year.

These business closures are very noticeable in our shopping areas, since Brownsville had always enjoyed the enviable reputation of having all its available retail sales space leased at 100 percent capacity, whether it was located in the central business area, the two regional shopping malls, or the many other shopping centers in the city. Now, the downtown area and some of the other commercial centers have taken on the appearance of a depression-era ghost town.

These business reversals can be attributed directly to the peso devaluations and the loss of Mexico consumers in Brownsville's retail sales market. Brownsville's economy is more diversified than other U.S. communities located along the United States-Mexico border. Although our broad economic base includes agriculture, tourism, shrimping, fishing, twin-plant operations, heavy industry, and an international seaport, the retail trade sales decline has nevertheless had a devastating effect on our business climate.

In the period from October 1982 to April 1983, the city of Brownsville had a decline in retail sales of $136 million. I might add that that is taxable sales. Unemployment in an area where un-

employment is traditionally higher than the national average shot up to twice the national average.

Over 200 businesses have closed their doors while others are living in the twilight zone. It is a gloomy picture, but it is a reality in Brownsville, Tex., "* * * on the Border, * * * by the Sea"—a city that has taken a tremendous economic impact due to the devaluation of the peso.

For those businesses that have survived, it is still a long hard struggle. Our business community can look forward to continuing debt problems and restricted cash flows, coupled with uneasy bankers and high interest rates. The survival rate will be low unless we can get some help.

Our accounts receivables are also suffering along with the rest of our business due to either slow pay or no pay at all. A typical example of a Brownsville business that has felt the impact of the devaluation is Don Quixote Men's Wear. It experienced a decline in sales of 60 percent which resulted in a loss of 70 percent of its work force. The business was caught with a high inventory and no cash flow, which resulted in losses exceeding $40,000 net profit.

This is only one business. If you consider the total picture, the losses are staggering. These figures are being presented to you because the owner of this establishment, George C. Borrego, is here as a representative from the Brownsville Chamber of Commerce.

The ripple effect of declining sales is very evident: No sales means; layoff of employees; cutback in workweek, which in turn translates to less purchasing power by local residents; less purchases of goods for resale; thus, more layoffs.

In the end, lower revenues for city government which, in turn, means less services for city residents and less work hours for city workers. It becomes a vicious cycle.

We view the prospects for recovery as very slow. Since Mexico looks forward to no growth in 1983; hence, no big change in our sales outlook is evident since this is where the Mexican consumer dollars came from. We estimate satisfactory recovery will take from 18 to 24 months.

For every action, there is a reaction, and we hope to counter the devaluation by promoting more tourism, including manufacturing plants to relocate in our area and in turn promote our surplus labor supply as a beneficial asset.

In summary, I would like to respectfully urge this congressional committee to do everything possible to let it be known in the Congress of the United States that the economic slowdown along the United States-Mexico border is not part of the national recession but is caused by the double-barreled combination of the recession and Mexico's peso devaluations.

If Congressional Representatives will take immediate action to provide long-term, low-interest loans, plus other economic aid to border businessmen, they will have taken an important step in revitalizing the business climate of the communities located along our international border with Mexico. This economic aid stimulus, plus whatever tax incentives or referrals that could be made available on a temporary basis, would have a beneficial, long-term effect in helping our businessmen rebuild their retail trade market,

which would gradually alleviate the high unemployment problem in the border area.

Again, let me stress that we need immediate assistance from the Federal Government if we are to help make this economic recovery a reality.

Thank you.

Mr. HANCE. Thank you very much. And you are——

Mr. BORREGO. I am a downtown merchant.

Mr. HANCE. Mr. Barbosa referred to you. You are in the men's clothing business.

After devaluation, you saw sales drop 60 percent?

Mr. BORREGO. Immediately it was 90 percent, but the average for the year ended up 60 percent. Mine. Other businesses downtown were about 80 percent. Because I tried to get into the city of Brownsville, and I take whatever comes across.

Mr. HANCE. Was that the general experience throughout the entire Brownsville area?

Mr. BARBOSA. Yes, sir, it was pretty general.

Mr. HANCE. How did that compare with McAllen?

Mr. SCHILLER. For the city as a whole, retail sales, between, say, the Christmas season, we were down 50 percent from Christmas 1983 to Christmas 1982. The areas of town that were the hardest hit in McAllen were the downtown area, South 22d Street and La Plaza Mall, whereas the northern part of the city, which was less dependent on Mexican trade, felt the impact much less.

Downtown sales were probably off up to 75 percent.

Mr. BARBOSA. Congressman, may I inject something there? I gave you a sales, decline in sales tax, which was from October 1982 to April 1983. These were actual. That is a reflection of a 43-percent decline, which tells you that there is a 43-percent decline in sales up to April 1983. So it has not increased.

Mr. HANCE. Where were most of your buyers coming from in Mexico?

Mr. BARBOSA. Where were most of my buyers coming from?

Mr. HANCE. Yes, in the Brownsville area. Monterrey?

Mr. BARBOSA. No. It had to be from all over because I, personally, had customers from Mexico City, Monterrey, you name it, we had it.

Mr. HANCE. Were there quite a few flights daily from Mexico?

Mr. BORREGO. There were, at the two airports.

Mr. HANCE. They had quite a few flights, but since the devaluation, that has primarily stopped, like McAllen?

Mr. BARBOSA. Right.

Mr. BORREGO. In answer to your question, most of my business that came from across was Tampico and Mexico City, and the people from Monterrey that went through us to get to South Padre Island.

Mr. HANCE. You have contact with a lot of business people. Have a lot of them cut back on the hours that their employees work?

Mr. BORREGO. In my particular instance, I had 11 employees in February of 1982. And I went down to three, one of them part time. Right now I have four, two of them part time.

Mr. HANCE. Have you had a noticeable increase in your unemployment insurance tax rate?

Mr. BORREGO. They haven't hit me yet because there is a lag.

Mr. HANCE. It hasn't caught up with you yet?

Mr. BORREGO. But one time that I laid off an employee, I was paying $5 a quarter. And I started paying $500 a quarter.

Mr. HANCE. A pretty significant increase.

Mr. BORREGO. Yes; the amount that was collected on my unemployment was about $1,600. That rate was issued to me for 2 years, I believe. So on $1,600 that was collected as my account, I paid back around $4,000.

Mr. HANCE. Are you seeing very many people leave for other areas to look for other jobs——

Mr. BORREGO. Yes.

Mr. HANCE [continuing]. That were permanent citizens of Brownsville?

Mr. BORREGO. Yes.

Mr. HANCE. Primarily what age group would that be and what financial status, as far as the amount of money they were making on jobs?

Mr. BORREGO. I would say you would have a cross section of most of the population. We had also the closing of Union Carbide in our city, which was one of the top paying industries.

Mr. HANCE. Do you know how many employees they had?

Mr. BORREGO. 400.

Mr. BARBOSA. Close to 400.

Mr. BORREGO. Those people have to leave the city because they can't get anywhere near what they were earning. I have three neighbors in my neighborhood who are already looking for jobs elsewhere.

Mr. BARBOSA. I will say there was an article in the Brownsville Herald in particular about Union Carbide. They had an engineer who was making $12 an hour and trying to survive and not wanting to move out of town. He is selling tacos. So just to give you an idea of going from $12 an hour to selling tacos just hoping to make it to survive.

Mr. HANCE. It would take a lot of tacos to make $12 an hour.

Mr. BARBOSA. Boy, I will tell you, he is going to have hell trying to go from a $30,000 a year job at 40 hours. He is working two jobs, two stands, trying to get going. It is a pretty interesting article in the Brownsville Herald. I believe, it hasn't been over a week ago.

Mr. HANCE. In McAllen, as far as people leaving or moving out, what have you seen?

Mr. SCHILLER. We haven't seen that much. I have only heard anecdotes of people leaving town. There seems to be—in the valley area—there seems to be quite an attachment to the area, anyway. We have heard some reports of people moving up to Houston and places like that. But mostly people are trying to find work here.

Mr. HANCE. That has got to be extremely difficult.

Mr. SCHILLER. Yes, sir, it is.

Mr. HANCE. Other questions? OK, gentlemen, we appreciate your being here.

Mr. BARBOSA. Thank you very much.

Mr. HANCE. I had two other individuals that I wanted to call on that I visited with. One was one of the HUD Administrators. I just want to give you an opportunity to say anything, you might want

to add. I thought maybe you might come up, if you would like to make a statement on behalf of the administration.

And also a farmer in this area, Mr. Jim Briggs, wanted to touch briefly on the citrus problem. So I thought I would just finish up with the two of you before I make a closing statement. Just identify yourselves and who you represent for the record, and we will be glad to hear from you.

STATEMENT OF JIM RICHARDSON, SPECIAL ASSISTANT TO THE REGIONAL ADMINISTRATOR, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, FORT WORTH, TEX.

Mr. RICHARDSON. Thank you, Mr. Chairman.

I am Jim Richardson. I am special assistant to the Regional Administrator of the U.S. Department of Housing and Urban Development, Fort Worth. I am also an adviser to HUD on the Presidential task force that was initiated on May 5 in San Antonio, Tex.

My experience the last 3 years, I was special assistant to Governor Clements as executive director of regional development which covered the area from Brownsville, Tex., to California. The testimony I have heard this morning is similar to what we have been hearing for the last year or so.

After having led the Governors task force, I am very familiar with the area. I was born and raised in Laredo, so I am very very familiar with the border. The ideas that we are passing on to the task force—and Under Secretary of Commerce Dederick is chairman of the task force—is that we are looking at some innovative projects.

As far as HUD is concerned, we are trying to implement the UDAG program on a more industrialized or commercial basis. Rather than parking lots and garages, I am looking at potential permanent job creation, whether it be in a McAllen trade zone, we have enabling legislation for the cities of Del Rio, Eagle Pass, Laredo.

I think as far as the border area, we can use the UDAG program very effectively in this case. We have come up with regulations in UDAG requirements that leverage probably 6 to 1 in private capital nationwide that can be drawn down to maybe 2½ to 1. And I am recommending to the task force that we make this even lower, to a 1 to 1 in order to enable border communities such as McAllen and others to avail themselves of this project.

I was very encouraged by a remark that I heard from a fellow Laredoan, that he said what basically needs to be done is to change the rules of all the Government agencies involved. The task force, as far as SBA—and I think we are looking at, of course, I am sure we will be hearing some, that more funds, and so on, and lower interest rates—but I think we need to look at changing some rules, especially that are not constitutional in nature.

I think that I would like to let the gentleman, I know we are on a tight schedule, I know you have a plane to catch, I also have a plane to catch, but I will be touching base with your staff, Congressman. I hope we can tie up together. I am very encouraged by the fact that there is interest in the border. Congressman Kazen, of

course, is a good friend of mine also. I am sure we will be touching base before long.

Thank you.

Mr. HANCE. Thank you very much. I appreciate your being here and your interest. I think that this issue should certainly be a bipartisan one. If we can work together on it then maybe we can get some assistance. This situation is not going to be easy to turn around overnight. But there needs to be some action.

So we will work with you next week when we start drafting our recommendations.

Mr. RICHARDSON. Thank you, sir.

STATEMENT OF JIMMY C. BRIGGS, ON BEHALF OF THE TEXAS CITRUS INDUSTRY

Mr. BRIGGS. Congressman Hance, I am glad to be before you. There wasn't anybody in the citrus industry to tell you how bad it was, so I decided at your request to put it on the record. We have several problems that started out, I guess, back when the Brown duel started over the Medfly. It cost a lot of shipments to California which is one of our biggest users of our Ruby Red grapefruit. This caused a surplus of juice in the tanks. Consequently, juice is not worth anything.

Another thing we had is the severe weather in the North where we couldn't get the fruit to the North.

Another thing is the inflation—I mean, the recession that we have nationwide. You don't buy grapefruit when you need to buy beans. So we have a great surplus of juice.

What I am getting at is with groves here at about $600 an acre, and payments to be made—for a year or so, I have been in the real estate business, and in a year or so there is not going to be enough fruit here to keep your farm workers busy, and this is going to cost jobs if we don't get some relief. Local banking institutions really don't like to loan money on a losing proposition such as groves when the price is $20 a ton.

That is about in a nutshell what I wanted to let you know about. This doesn't have anything to do with the peso devaluation, but it does have to do with the economics of agriculture, which is a great majority of the profit that comes into the valley.

Mr. HANCE. Congressman de la Garza had expressed this to me. And this, you know, does have side effects on some of the programs we have jurisdiction over, because those farmworkers who have been laid off and are not working are going to be drawing benefits.

So it is something we certainly need to consider. I appreciate your touching on it.

Mr. BRIGGS. Another thing, Congressman. When the trees are gone, it takes a good 5 years to get them good again. If these people can't borrow money to keep the groves going, it is going to cost jobs for at least that long.

Mr. HANCE. It is not something that turns around overnight.

Mr. BRIGGS. It is not like the peso devaluation. We need maybe help with some disaster loans or small business loans to keep the citrus farmers in business.

Mr. HANCE. Thank you. I appreciate your being here. I hope to have our recommendations ready within 10 days to present to the full committee. We will send a copy of our complete recommendations and where we go from here to those of you who testified. I can assure you that this issue in this area is not going to be forgotten, and that all the people that represent this area have been very vocal with the other members of Congress.

We felt that by having hearings here and having witnesses and writing up a full report for each member, that the problem would get more attention.

Once again, thank you for coming. With that, we are adjourned.

[Material submitted for the record follows:]

THE EFFECTS OF THE MEXICAN PESO DEVALUATIONS ON THE TEXAS ECONOMY

(Submitted by Bob Bullock, Texas Office of the Comptroller)

(Retail sales all along the Texas border have plummeted as the value of the Mexican peso has fallen by over 80 percent in the last 14 months, causing revenue shortfalls for many border cities. Not only have border businesses been hurt, but unemployment in the area has increased.)

Last August, outgoing President Jose Lopez Portillo sent shock waves through the Mexican economy by announcing the second devaluation of the peso in six months. In rapid succession, his administration followed up with export controls on basic food commodities, the nationalization of the Mexican banking system, strict currency controls, and cuts in government spending. The administration also ordered liquidation of foreign holdings by Mexicans who were told to bring their money back into Mexico.

The effects of the new Mexican fiscal policy have spread beyond the border, impacting the livelihoods of many Texans and the economy of the state itself.

With some 1,250 miles of international boundary to the south, the Texas economy reacted almost immediately to these changes in Mexican policy: retail sales declined and unemployment rates increased.

So great has this impact been on the Texas economy that Mexico's economic problems were cited by the Comptroller of Public Accounts as a major factor in the forecast slowdown in state revenue growth for the 1984–85 budget period.

THE DEVALUATION CYCLE

Peso devaluations are nothing new for Mexico. Between August and December 1976, as President Lopez Portillo awaited inauguration, the outgoing administration devalued the peso by 50 percent, from eight U.S. cents per peso to four cents.

The discovery of vast oil resources in 1976 during an era of rising oil prices encouraged the Mexican government to undertake an ambitious economic development program financed by international loans. The Mexican economy grew at remarkable annual rates of 8–9 percent (after adjusting for inflation) between 1978 and 1981, and the resulting inflation quickly over-valued the peso again.

The new wealth generated by Mexican oil and the over-valued peso represented a powerful combination for Texas retailers as far north as San Antonio and Houston. As Table 1 indicates, the six largest Texas border counties posted an average annual growth rate in retail sales of about 20 percent, or almost $2 billion in expanded sales each year between 1978 and 1981. Even as the U.S. economy slipped into recessions in 1980 and 1981, these border counties saw impressive increases in sales of 21 percent and 22 percent.

TABLE 1.—ANNUAL GROWTH RATES IN RETAIL SALES IN SIX TEXAS BORDER COUNTIES

	1978 (percent)	1979 (percent)	1980 (percent)	1981 (percent)	1982 [1] (percent)
County (City):					
Cameron (Brownsville)	28.5	21.6	21.8	19.3	−5.4
El Paso (El Paso)	12.3	15.0	17.3	20.4	7.1
Hidalgo (McAllen)	18.5	19.6	18.1	27.5	−2.8

TABLE 1.—ANNUAL GROWTH RATES IN RETAIL SALES IN SIX TEXAS BORDER COUNTIES—Continued

	1978 (percent)	1979 (percent)	1980 (percent)	1981 (percent)	1982 [1] (percent)
Maverick (Eagle Pass)	11.7	17.1	18.5	52.6	−15.5
Val Verde (Del Rio)	10.9	22.0	17.2	14.2	1.0
Webb (Laredo)	15.9	22.5	44.1	21.8	−23.2
Six-county average	16.5	18.0	20.8	22.2	−8.2

[1] Includes only the first 9 months of 1982.

Source: Comptroller of Public Accounts.

When the worldwide recession reached the Texas border economies, it came through the back door. Stalled western economies and increased energy conservation measures resulted in declining demand for Mexican oil and spelled trouble not only for the Mexican economic program, but also for Texas border communities dependent on trade with Mexican nationals.

By early 1982, Mexico was carrying the largest foreign debt burden of any third-world nation, over $80 billion, and interest payments alone exceeded $12 billion. These factors, together with Mexico's appetite for foreign goods, necessitated an additional $3 billion in international borrowing in the fourth quarter of 1982. The 1981 budget deficit was $13 billion, a staggering 15 percent of its total output of goods and services—or Gross National Product (GNP). (A 1983 U.S. deficit representing 15 percent of GNP would exeed $500 billion—considerably higher than current deficit projections.) Unemployment hovered around 30 percent in Mexico, compared to U.S. unemployment of about nine percent. To stimulate exports and finance its debt and imports, the Mexican government devalued the peso in February 1982 by about 40 percent, to 2.1 U.S. cents per peso.

Nevertheless, the Mexican economy continued to deteriorate. Prices for major Mexican products such as coffee, copper, and silver declined and the bottom fell out of the tourist trade as the U.S. slipped into a deep recession. With the annual inflation rate at 70 percent and his party facing elections, President Lopez Portillo endorsed major wage increases. Inflation escalated and middle-class Mexican nationals sought the security of dollar-denominated investments. The flight of the peso deepened the financial crisis, and in August 1982 the government dropped the value of the peso to an official rate of 1.43 U.S. cents per peso. But on the Mexican black market and north of the border, the peso's value dropped below a penny. By year end, a third devaluation had dropped the value of the pesos to .67 U.S. cents, at 150 pesos to the dollar, the peso had lost more than 80 percent of its value in ten months.

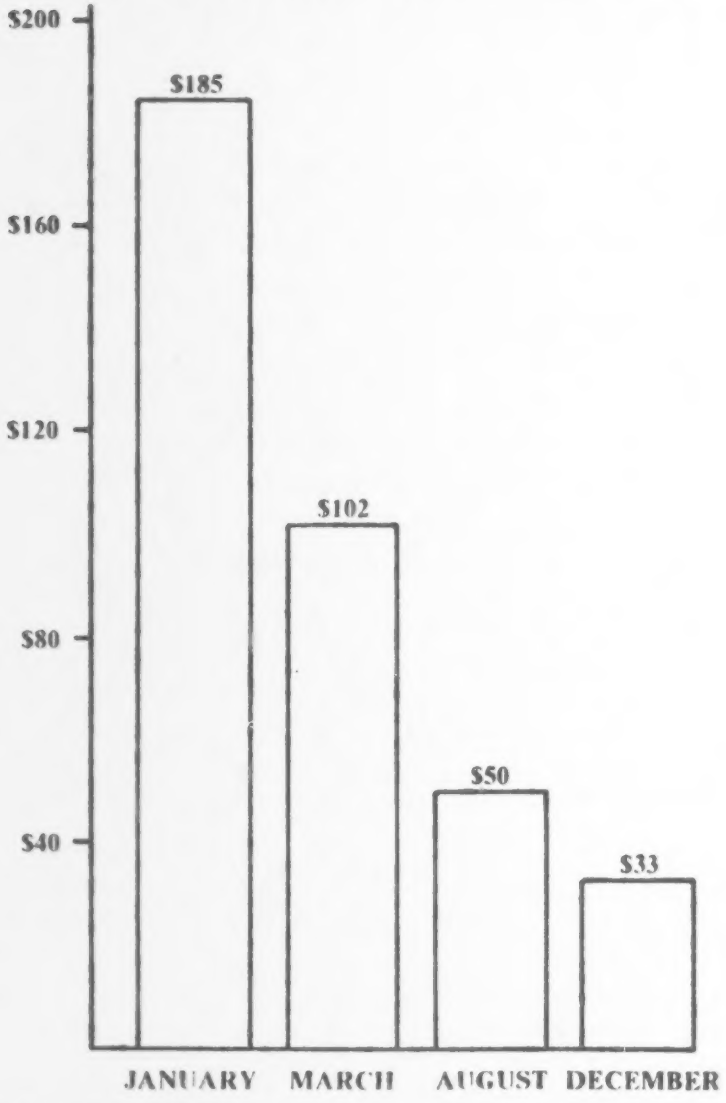
The devaluations have not produced a quick fix. Inflation is still expected to top 100 percent in 1983, while Mexico's GNP may drop by as much as four percent. Wages are unlikely to keep pace with inflation and unemployment could continue to climb rapidly.

IMPACTING TEXAS BUSINESS

The devaluations and currency controls brought financial disaster to countless Texans who had invested in Mexico or depended on Mexican trade for their jobs. With nationalization, all dollar accounts were converted to pesos, and the government limited the pesos that could be removed from Mexico to 5,000, or about $70 at official exchange rates. Consequently, U.S. investors suffered huge losses and until late December found it almost impossible to take their money out of Mexico.

The August 1982 devaluation stunned South Texas retailers by cutting sales as much as 80–90 percent in many border businesses. Figure 1 illustrates the impact of the devaluations on Mexican purchasing power in the U.S.

FIGURE 1
THE PURCHASING POWER OF 5000 PESOS IN TEXAS RETAIL STORES DURING 1982



SOURCE: Comptroller of Public Accounts.

Declining sales by border businesses drove September 1982 umemployment rates up to 23.3 percent in Webb County (Laredo), an increase of over 50 percent, and contributed to a leap in Texas unemployment between August and September. Table 2 compares unemployment rates in the six largest border counties before and after the August 1982 devaluation.

TABLE 2.—1982 UNEMPLOYMENT RATES FOR SIX TEXAS BORDER COUNTIES

	Predevaluation July (percent)	Postdevaluation September (percent)	Percent change
County (city):			
Cameron (Brownsville)	12.6	15.8	25.4
El Paso (El Paso)	12.1	12.7	5.0
Hidalgo (McAllen)	16.7	21.1	26.3
Maverick (Eagle Pass)	22.7	24.5	7.9
Val Verde (Del Rio)	11.8	12.6	6.8
Webb (Laredo)	15.3	23.3	52.3
Texas	7.3	8.0	9.6

Source: Texas Employment Commission.

January 1983 retail sales were off by as much as 79 percent from year-ago levels in the downtown shopping districts of the six largest border cities. McAllen and Laredo officials estimated that Mexican nationals represented 30 percent and 80 percent, respectively, of total sales in their cities prior to the August 1982 peso devaluation. Because the El Paso and Brownsville economies are more diversified, officials in these cities expect to weather the crisis better than other border cities.

Retail outlets were not the only businesses affected by the devaluations. Sales to Mexican nationals made up an estimated 70 percent of the $34 million Laredo housing market last year. One Laredo savings and loan institution initiated almost 50 new foreclosures in September 1982. On South Padre Island, where Mexican nationals accounted for over half of all property sales, an increase in foreclosures appears likely.

IMPACT ON LOCAL GOVERNMENT

As retail sales plummeted, cities along the Rio Grande watched sales tax revenue fall. Table 3 shows the effect of the August 1982 devaluation on city sales tax revenue. Laredo—perhaps the hardest hit—revised its estimated fiscal year 1983 sales tax receipts downward by $3.5 million. Compounding this loss, Laredo's international bridge receipts have also dropped steeply. After collecting some $5.1 million in bridge receipts during fiscal 1982, the city is expecting a 30 percent decline in fiscal 1983 to $3.5 million. Since these two sources represent 54 percent of the city's general fund budget, Laredo officials plan to eliminate about 160 jobs.

TABLE 3.—POST AUGUST 1982 MEXICAN PESO DEVALUATION CITY SALES TAX REVENUE ESTIMATED VERSUS ACTUAL

	Fiscal year—			
	1982 receipts in millions	1982 [1] percent of total budget	1983 estimated percent decline	1983 [2] actual percent decline
Brownsville	$5.1	17	31	37
Del Rio	1.2	10	NA	10
Eagle Pass	1.4	17	36	42
El Paso	16.8	19	[3] 1	10
Laredo	6.8	27	33	45
McAllen	6.9	25	24	36

[1] Estimated.
[2] Comptroller of Public Accounts' city sales tax allocations reflecting sales tax revenue after August 1982 devaluation, including October, November, December and January allocations. Figures represent decline from same period last year.
[3] Unofficial estimate.

Source: City budget office and Comptroller of Public Accounts.

An additional problem for local governments up and down the Rio Grande is the impact of the devaluation on the abilities of both businesses and homeowners to pay local property taxes. Eagle Pass is expecting a 15 percent decline in property tax receipts this year.

After the August 1982 devaluation, the El Paso Chamber of Commerce reported that October retail sales fell to 40 percent below 1981 levels. In fact, all six border cities may have underestimated the impact of the August devaluation on city revenue. City budget offices estimated declines in post-devaluation sales tax revenue of from one percent for El Paso to 36 percent for Eagle Pass. Actual declines have ranged from 10 percent for El Paso and Del Rio to a high of 45 percent for Laredo. If border cities property tax receipts also fall, significant reductions in some city services may be unavoidable.

In addition to declining revenue, border cities face two other problems—cuts in federal funding and an influx of undocumented aliens. A major part of the Reagan Administration's effort to reduce domestic spending involves cutting federal funds for state and local governments—cuts in 1982 federal funding for the Texas border cities were as high as 30 percent.

Secondly, as Mexican unemployment rises and the devaluation drives up U.S. pay scales to more than 15 times Mexican pay scales, border crossings by undocumented aliens are expected to run as high as seven million a year. With the combined impact of the recession and increased immigration, the Texas Department of Human Resources expects to see caseloads increase in Food Stamp. Aid to Families with Dependent children, and child protection programs.

PROSPECTS FOR RECOVERY

After the February 1982 devaluation, many analysts believed that economic recovery would follow quickly. During the early part of 1982, the border economies remained stable, but after the August devaluation, the outlook was less hopeful.

Today, Mexico looks forward to no growth in GNP for 1983. Under terms worked out with the International Monetary Fund (IMF) Mexico has pledged to narrow its budget deficit to 8.5 percent of GNP and limit its increase in new external borrowings to $5 billion in 1983. Some economists believe this may reduce real GNP by as much as two percent next year. If so, Mexico's unofficial unemployment rate of some 30 percent will rise further. (Mexico's population growth produces one million new workers each year.)

The outlook for oil prices and consumption is dismal as well. In real terms, oil prices are likely to decline in 1983. Wharton Econometrics estimates that a $2 drop in world oil prices could decrease Mexican GNP by 3.7 percent. The Mexican government expects tourism to return to 1981 levels after a 12 percent drop in 1982, but these expectations may be overly optimistic given the slow economic recovery in the U.S. and the confusion caused by inconsistent currency control policies in Mexico.

Many border business leaders are resigned to a fundamental change in the economic structure of their communities. For now, border communities will probably look north for economic growth. In El Paso, the Business Development Center is assisting minority-owned or operated businesses in finding federal government buyers and developing markets in other states and overseas. The Texas Industrial Commission provides similar assistance whether or not a business is minority-owned or operated.

In the Rio Grande Valley and, to a lesser extent, in Laredo, businesses are hoping that the annual influx of "winter Texans" will lessen the impact of the devaluation. Estimates of the economic impact of seasonal Texas residents, largely from the Midwest, go as high as $400 million each year. Business leaders hope that news of bargains on both sides of the border will attract a larger flock of "snowbirds" this year. However, most of these consumers are on fixed retirement incomes and tend to be conservative spenders.

The brightest hope along the Texas-Mexico border is that the agreement between the IMF and the new administration of President Miguel de la Madrid will bring a loosening of currency controls and stabilize trade and exchange rates. But barring a major move upward in oil prices, no one expects anything other than a long, slow struggle to rebuild the economies on both sides of the Texas-Mexico border.

[From the Office of Governor Mark White, Feb. 28, 1983]

Economic and Human Crisis in South Texas

BRIEF

The Lower Rio Grande Valley is in the midst of a profound and devastating economic crisis. The devaluation of the peso, the drop in oil prices and the constant flow of people across the border have produced a potentially explosive situation that threatens the economic stability of this area and poses severe hardships for its people.

The people, businesses and local governments in this area face the economic equivalent of a natural disaster. Chronic unemployment and underemployment are now compounded by economic conditions that have reduced business activity in some fields by as much as 80 percent and threaten nearly a third of the small businesses with bankruptcy.

As in natural disasters, the local people, businesses and government entities have no control over the economic forces that are destroying their livelihood.

Unemployment in this area—which has some of the heaviest concentrations of people along the entire length of this nation's 2,000-mile border with Mexico—is as high as 50 percent in some counties. Local economic conditions are as depressed as anywhere in the industrial North and prospects for re-employment are dismal.

For this reason, we are seeking emergency aid for this region of South Texas and for other areas that are similarly impacted.

We request special relief and stepped up action to generate an influx of social services and job funds, small business loans and loan guarantees, Economic Development Administration support, educational impact aid, special insurance to protect against home mortgage defaults and special consultative assistance from FDIC and other appropriate federal agencies. The Valley clearly should be designated one of the high-unemployment target areas for construction projects and other efforts to generate jobs under the jobs and recession-relief program recommended to Congress.

BACKGROUND

Peso devaluations

In February of 1982, the peso was devalued by 40 percent (to 26 pesos per dollar) in an attempt to stimulate exports and finance imports. As international commodity prices continued to drop, another devaluation came on August 5 which dropped the value of a peso to 70 pesos per dollar. But on the Mexican black market and the "gray" market in this country, the value of a peso dropped below a penny (100 pesos per dollar).

Between August and December, a number of attempts were made to halt the flow of pesos out of Mexico. In December, the peso was allowed to float, settling at the current value of 149 pesos per dollar.

Relevance to lower Rio Grande Valley

The Lower Rio grande Valley was a central market for many Mexican citizens and a large proportion of retail sales in this area were from Mexico. The black market cushioned the initial shock of devaluation, but the floating peso of today has devastated the retail markets.

South Texas was also the recipient of "exported" capital out of Mexico during the Seventies. Mexican investors bought land in the Valley as a hedge against Mexican inflation. Now, with devaluation, these investors cannot make payments and real estate values in the Valley are depressed.

The future

Mexico currently has an inflation rate of more than 60 percent. More than one milion jobs were lost last year in Mexico. If oil prices continue to fall throughout this year, the Mexican economy is expected to experience no growth. The peso currently is considered undervalued but continuing inflation will lead to an overvalued peso by the end of the year and possible further devaluation.

The U.S. Government response to date

The Small Business Administration (SBA) announced plans to provide $200 million in "Peso Pack" loans during 1982. With interest rates set at 14.75 percent, however, only $15 million was disbursed. The rest of the funds are no longer available.

Federal funds (including revenue sharing and community development funds) have been cut between 3 percent and 30 percent for border counties and cities at a time when other revenue sources are also decreasing.

CURRENT SITUATION IN SOUTH TEXAS

GOVERNMENT REVENUE

Sales tax receipts

Since July of 1982, sales tax collections are down 27.4 percent in Brownsville when compared to a comparable period from July 1981 through February 1982. Collections for a similar size city in North Central Texas showed a five percent decline over the same period.

The problem is growing worse. Since October of 1982, the sales tax collections dropped 35 percent in Brownsville. In November, the decline was 33 percent, in December 32 percent, January 48 percent and February 33 percent.

School property taxes

Raul Besteiro, Brownsville School Superintendent, reports the school district may collect only 50 percent of all taxes owed this year because of business failures. Property values on residential homes have dropped by 20 percent during the last year in McAllen.

LOCAL GOVERNMENT SERVICES

Reductions in city revenue have required cities throughout the Valley area to place a freeze on city employment and on capital equipment expenditures in a time when demand for cities services are escalating rapidly. Specifically, the City of McAllen has begun laying off city employees and the cities of Hidalgo, Pharr and Mission are not far behind if sales taxes do not begin to normalize.

The counties of Cameron and Hidalgo are experiencing great pressures in the human services programs. Cameron County has a budget of $3 million and the demand for services are five times their current budget. Hospital indigent care, child welfare/protective services and abuse shelters are examples of services that are pushing costs upward.

Due to a recent court order, the school district in Brownsville has been required to build 24 percent more classrooms to serve an increasing number of illegal alien children.

Local governments report a considerable increase in the need for emergency food, clothing and shelter due to illegal aliens fleeing the peso devaluation problem.

BUSINESS ACTIVITY

Business climate

Gross sales for all industries declined by 26 percent in Hidalgo County and 20 percent in Cameron County. This compares to an 8 percent increase in the state as a whole.

Peso devaluation and the loss of trade with Mexico, along with the decline in the oil industry, have left one worker in five unemployed.

Agriculture

Grapefruit production will be 14 million boxes this season, but only 12 million appear to be marketable. In 1981, 13.9 million boxes were marketed.

Oil industry

Gross sales in the mining industry (which in this area consists mainly of oil and gas related industries) dropped 29.3 percent between the first quarter of 1981 and 1982. Sales have continued to decline as 1981 prices have slipped.

Manufacturing and wholesale trade

Manufacturing and wholesale trade dropped 16 percent between 1981 and 1982. Wholesale trade in durable goods was down 37 percent between 1981 and 1982. General merchandise gross sales dropped 34 percent between 1981 and 1982.

Retail trade

Retail sales in Brownsville dropped 68 percent between October of 1981 and October of 1982. McAllen retail sales are estimated to be down approximately 85 to 90 percent.

Real estate

Home sales are reported to be off 63 percent and the average sales price of a home has dropped by $20,000 since last year.

Building permits

Building permits dropped in value $12,440,803 in Cameron County and $5,543,470 in Hidalgo County. This represents a 46 percent decline between 1981 and 1982.

Tourism

Average weekly occupancy rate for hotels/motels has decreased from 1982 to 1983 (comparable weeks in January-February) from 75 percent to 41 percent in Brownsville and from 92 to 62 percent in McAllen.

PEOPLE

Unemployment

In January, 20.5 percent of the work force was unemployed in the Edinburg SMSA and 17.7 percent in the San Benito SMSA compared to a U.S. level of 11.4 percent. In Starr County, 50 percent of the workers are unable to find jobs.

Rapid growth

Almost a half million people lived in the Valley at the time of the 1980 Census. Cameron County grew 49 percent and Hidalgo County grew 56 percent between 1970–1980 compared to an 11 percent growth rate for the U.S. as a whole.

Health

Since January 1982, there has been a 38 percent increase in the number of people seeking public clinic care.

Clinic cost collection rates dropped 30 percent in November 1982. U.S. Public Health Clinics are unable to meet federally established collection requirements.

Indigent clinics are now overflowing with formerly middle class people. Health personnel and space shortages are severe.

Among area farm workers, infant mortality is 125 percent higher that the national average.

Human needs

Food stamp applications have increased 35.5 percent in Cameron County since August 1982.

The number of persons receiving food stamps has increased 26.4 percent in Hidalgo County since 1982.

Education

A devastating 86 percent of the farm worker children are not graduating from high school.

Among adult farm workers, 14 percent are unable to read or write.

The educational level in the Valley is generally lower than in the state and the U.S. as a whole. The percentage of the population age 25 and over with a high school degree is 44 percent in Cameron County and 41 percent in Hidalgo, compared to 63 percent in Texas as a whole.

School enrollment

The high population growth rate and younger age structure of the Valley is reflected in a drastic growth in school enrollment.

Between the 1970–71 and 1982–83 school years, enrollment in public elementary and secondary schools increased by 60 percent in Hidalgo and 46 in Cameron Counties. During the same period, enrollment in all Texas public schools grew 11 percent.

Housing

Some 40 percent of farm worker families do not have indoor toilets and 20 percent have no direct access to safe drinking water.

Younger age

The Valley population is younger than both the Texas and U.S. populations. Median ages for Cameron and Hidalgo Counties were 25 and 24, compared to 28 for Texas and 30 for the U.S.

Ethnicity

Hispanics constitute a majority of the population in the Valley—77 percent in Cameron County and 81 percent in Hidalgo County—compared to a 21 percent Hispanic population in Texas and 11 percent for the nation as a whole.

Language

In Cameron County, 84 percent of all children age 5–17 speak a language other than English at home, compared to 26 percent in Texas and only 10 percent in the U.S.

Income

Income indicators for the Valley are consistently and considerably below the Texas and national averages.

Median household income in both counties is approximately 33 percent below the U.S. average.

Per capita income of persons age 15 and older in Hidalgo County is 45 percent below the national average.

Poverty

The poverty rate in both Cameron and Hidalgo is more than double the Texas and U.S. rates.

In 1980, 35 percent of the population of Hidalgo County and 32 percent of Cameron County population was below the official poverty level.

Mexico border States

Mexico's population grew almost 40 percent between 1970 and 1980, according to preliminary counts from the Mexican Census.

There are 7.9 million people living in the Mexican states that border Texas.

There are 10.6 million people living in the Mexican states that border the U.S.

PEOPLE.—DEMOGRAPHIC-SOCIAL-ECONOMIC CHARACTERISTICS

	Brownsville-Harlingen-San Benito SMSA (Cameron County)	McAllen-Pharr-Edinburg SMSA (Hidalgo County)	Texas	United States
Total Population	209,727	283,229	14,229,191	226,545,805
Percent growth between 1970–80	49	56	27	11
Median age (years)	25	24	28	30
Percent Hispanic	77	81	21	6
Median household income	$11,731	$11,232	$16,708	$16,850
Per capita income of persons over 15	$4,336	$4,040	$7,206	$7,314
Percent below poverty level	31.8	35.2	14.7	14.2
Percent of persons 25 and over who are high school graduates	43.8	41.1	62.6	na
Percent of persons age:				
0 to 19 yr.	42	43	34	32
20 to 44 yr.	32	31	38	37
45 to 64 yr.	16	16	18	20
65 and over	10	9	10	11
Percent of persons who speak a language other than English at home:				
Age 5 to 17	84	74	26	10
Age 18 and over	88	77	21	11

Source: 1980 Census of Population Summary Tape Files 3A and 3C.

FALL SCHOOL ENROLLMENTS FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS ONLY

	School year			Percent change	
	1970–71	1980–81	1982–83	1970–71 to 1982–83	1980–81 to 1982–83
Cameron	41,368	54,964	60,579	+46.4	+10.2
Hidalgo	53,137	76,443	83,567	+60.3	+9.3
Texas	2,711,548	2,900,067	2,985,659	+10.6	+3.0

Source: Texas Education Agency, Fall Survey of Pupil Membership, 1970–71, 1980–81, 1982–83.

[Whereupon, at 12:15 p.m., the hearing was adjourned.]

APPENDIX.—SUMMARY OF FINDINGS AND RECOMMENDATIONS

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., August 3, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
Washington, D.C.

DEAR MR. CHAIRMAN: Last month, the Subcommittee on Public Assistance and Unemployment Compensation held a field hearing in McAllen, Texas. The purpose of this hearing was to gather information on the effects of the 1982 peso devaluation on the U.S. communities that border Mexico. In particular, the hearing focused on the resulting economic and social problems experienced by the U.S. border communities in South Texas.

This letter will summarize the Subcommittee's findings and make recommendations for addressing the problems that the Subcommittee discovered. The recommendations center around the Committee's pending consideration of extending the Federal Supplemental Compensation (FSC) program and consideration of increasing the federal funding for Title XX social services. Both of these proposals are assumed in the recently passed budget resolution. In addition, I believe that the Committee should hold hearings as soon as possible on H.R. 1955, the "Enterprise Zone Employment and Development Act of 1983." This legislation, if enacted into law, could help these communities on the Texas-Mexico border diversify their local economies and provide long-term solutions to overdependence on trade with Mexico.

In 1982, the Mexican peso underwent a series of devaluations that greatly reduced the purchasing power of the peso. In January 1982, 5,000 Mexican pesos were worth 185 U.S. dollars. By December 1982, these same 5,000 pesos were worth only 33 U.S. dollars, an 82 percent decline in value in less than a year.

This decrease in the value of the Mexican peso has caused serious problems for U.S. border communities. Traditionally, these communities have had very favorable balances of trade with their "sister" cities just across the border, and have provided a large portion of the consumer goods purchased by these Mexican citizens. In addition many Mexican citizens have invested in real estate and other assets in the U.S. as a hedge against the uncertain economic environment in Mexico. A disproportionate amount of this investment has occurred in the U.S. communities that border Mexico.

The effects of the devaluation have been felt all along the U.S. side of the U.S.-Mexico border. The U.S. border communities in South Texas, however, have been affected more by the Mexican peso devaluation than other U.S. border communities. This is primarily because, to a large extent, the South Texas border area is both geographically and economically isolated from the rest of the nation. The economy of this area is not well diversified, and has been overly dependent on trade and commerce with Mexico.

The effects of the peso devaluation have compounded an already depressed South Texas economy. The three standard metropolitan statistical areas (SMSA's) on the South Texas border—the McAllen-Pharr-Edinburg SMSA, the Laredo SMSA and the Brownsville-Harlingen-San Benito SMSA—have the three lowest per capita incomes of all the urban areas in the country. In addition, unemployment in the region was well above the national average even before the devaluation.

The most obvious effect of the peso devaluation in this region has been a dramatic increase in unemployment during the past year. In April of this year, unemployment stood at 16.2 percent in the Brownsville SMSA, 19.0 percent in the McAllen SMSA and a staggering 27.4 percent in the Laredo SMSA. These unemployment rates are all substantially above the April 1982 figures. These unemployment rates in South Texas, however, are hidden by the nationally reported stateside figures that would indicate a relatively healthy Texas economy.

The area has also experienced a dramatic increase in applications for FADC benefits, food stamps, and other social services. Most alarming was information presented at the hearing indicating a drastic increase in child abuse cases reported in Laredo. This situation is compounded by the fact that Laredo has been forced to reduce the number of child welfare case workers because of budgetary constraints.

The South Texas border communities have also experienced dramatic decreases in revenues to local governments, primarily because of reduced commerce with Mexico. For the first five months of 1983, sales tax receipts in this area have declined from

30 to 51 percent from the same period in 1982. In addition, there has been a sharp decrease in local property tax collections due to the severe economic slump. This loss of revenues by these local governments has severely affected their ability to address the many problems their communities are now facing.

The situation on the South Texas border is critical and in need of special attention. There are several recommendations that I believe the Committee should take into consideration to help alleviate the problems of the South Texas border area.

First, the Committee should consider ways to address the high unemployment in the region. The budget resolution recently passed by Congress contains $1.5 billion for a possible extension of the Federal Supplemental Compensation (FSC) program. The Committee should consider setting aside part of these funds for employment and training of unemployed individuals in economically distressed areas of the country. While there would be administrative problems with this proposal, part of the FSC allocated funds could be earmarked for governors to target employment training funds to distressed areas of their states.

In the distribution of these special employment funds, however, it is important that factors other than the state's overall unemployment rate be utilized. These overall rates often mask areas of high unemployment within a state with a generally healthy overall economy. Factors such as increases in unemployment or total numbers of employed could be taken into account to make the distribution of funds more equitable.

The Committee will soon be considering the increases in funding for Title XX also contained in the 1984 budget resolution. If these increases are acted upon, the Committee should consider requiring the governors of the various states to earmark a portion of their increase in Title XX funding for addressing critical problems in communities within their states.

The Committee should also address the problem of child abuse associated with increased unemployment. I recommend that the Committee request appropriate action to be taken in this regard under Section 426 of the Social Security Act, which was approved by Congress for purposes of research, training and demonstration projects in child welfare.

During the course of the McAllen hearing, representatives of the Texas Department of Human Resources and of local governments testified that many of the local governments in the affected area were experiencing a great deal of difficulty in meeting local match requirements by the State of Texas for certain Title XX funding. Many of these local governments have experienced dramatic decreases in local revenues due to the peso devaluation, and are having to cut back on city expenditures in all areas. It would indeed be unfortunate if these communities were to lose Title XX benefits because they are too poor to meet a local match, that some provision be made to allow the match to be waived if it presents an unreasonable burden on a local community.

Many of the problems in the South Texas border region are the result of an area economy that has become too dependent on trade with Mexico. The real key to solving the problems in this region is to diversify its economy. The geographic isolation of the South Texas border region makes this task difficult. I believe that the Committee should give full consideration to H.R. 1955, the pending enterprise zone legislation that has been introduced in the House and that has passed the Senate. The provisions in this legislation could help these Texas border communities to diversify its economic base and become less dependent on an unpredictable and unstable Mexican economy. I would urge you to hold hearings on the enterprise zone legislation in the very near future.

I appreciate this opportunity to share my thoughts with you on the problems of the South Texas border. I look forward to working with you and Chairman Ford on proposals to help solve the problems of this region.

Sincerely,

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KENT HANCE.